ALBERTA
LEGISLATURE

REPORT OF THE

# AUDITOR GENERAL

FOR THE YEAR ENDED MARCH 31, 1983

Alberta Legislature
Office of the Auditor General

Dr. C.R. Elliott, M.L.A.
Chairman of the Select Standing Committee
on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1983, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

C.A.
Auditor General

Edmonton, Alberta
February 14, 1984

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# REPORT OF THE AUDITOR GENERAL OF ALBERTA

## FOR THE YEAR ENDED

## MARCH 31, 1983

## 1 INTRODUCTION

### 1.1 FOREWORD

1.1.1 This is the fifth annual report of the Auditor General to the Legislative Assembly of Alberta. It covers the fiscal year of the Crown ended March 31, 1983 and discharges the reporting requirements of section 19 of the Auditor General Act, Chapter A-49, Revised Statutes of Alberta 1980. The Auditor General Act is reproduced in Appendix I of this report.

1.1.2 When performing annual audits, part of the audit work must inevitably be completed after the period covered by the financial statements. Furthermore, it is standard practice for auditors to review the events that occurred between the end of the fiscal period being reported on and the date of their report. For these reasons, some observations and recommendations contained in this report arose from audit activity during the 1983-84 fiscal year of the Crown.

## 1.2 OVERALL ASSESSMENT

1.2.1 The main purpose of this report is to bring to the attention of the Legislative Assembly, matters reportable under section 19 of the Auditor General Act that were observed and that the Auditor General considers are important.

1.2.2 When reading this report it should be borne in mind that matters reportable under section 19 of the Act are, in the main, administrative shortcomings and irregularities. Accordingly, this report is not and cannot be a balanced report. Rather, it is a report by exception. For this reason, the report may appear to emphasize shortcomings without giving credit for the many situations where no serious irregularities were observed. It is important therefore, to acknowledge that most audits for the 1982-83 fiscal year revealed no shortcomings or irregularities considered worthy of reporting to the Legislative Assembly under section 19 of the Auditor General Act.

1.2.3 Any overall assessment of the quality of the Province's financial administration must not be allowed to detract from the importance of the observations and related recommendations contained in this report. Nevertheless, based on the work of his Office, the Auditor General considers that the financial affairs of the Province were administered in a generally satisfactory manner during the 1982-83 fiscal year of the Crown. Furthermore, the financial records and controls of most Provincial entities have continued to improve in a satisfactory manner. In particular, many of the previously reported problems have now been substantially eliminated, mainly due to the prompt and positive responses that most audit findings and recommendations normally receive from all levels of management.

1.2.4 The Provincial Treasurer has adopted the practice each year of responding formally on behalf of the Government to the recommendations contained in the Auditor General's annual reports – see Appendix II of this report. Although occasionally the Government has rejected a recommendation, in most instances it has concurred with the Auditor General's suggestions, and action has been taken to implement them. In a few cases, however, although the Government has concurred with a recommendation in principle, it has remained unimplemented for a considerable time. In these cases, the Auditor General has repeated the recommendation each year and the Government has responded in a similar manner. Each recommendation is dated to indicate the year in which it first appeared in an annual report.

### Acknowledgements

1.2.5 An auditor's responsibilities can be discharged more efficiently with the co-operation and assistance of those whose affairs are audited. For this reason, the Auditor General is pleased to acknowledge with gratitude the excellent co-operation and assistance that management and staff of departments and agencies have extended to staff and agents of the Audit Office during the course of their work.

## 1.3 SUMMARY INFORMATION

1.3.1 In the past decade, several provincial governments have changed significantly the way they present financial accountability information to their legislative bodies and to the public. The Government of Alberta is to be congratulated in this regard as the Province has pioneered several reporting practices that have been adopted or are under consideration in other jurisdictions.

1.3.2 In past years, the public accounts of most provinces were traditionally rather fragmented. They consisted primarily of financial statements of a general or central revenue fund and separate financial statements of Crown corporations, boards, funds, commissions etc., handling other aspects of government business. This fragmentation was not a serious drawback as long as the great majority of government business was transacted through a general or central revenue fund. As Crown corporations and funds increased in number, however, and accounted for an increasing proportion of government activities, the financial statements of a general or central revenue fund could no longer be viewed as a fair representation of a province's overall results and financial position.

1.3.3 In response to this situation, in 1978-79 the Government of Alberta published the Province's first consolidated financial statements. These statements are an aggregation of the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately seventy of the Province's largest Provincial agencies and funds. The consolidation, however, does not include the Provincially owned universities, colleges and hospitals.

1.3.4 Each year since 1978-79, the Government has continued to refine the methods used to prepare the Province's consolidated financial statements, and will undoubtedly continue to do so in the future. Nevertheless, in the opinion of the Auditor General, the consolidated financial statements now constitute a sound basis for reviewing the overall financial position of the Province and its annual operating results.

A more detailed discussion of the consolidated financial statements and the consolidation methods employed are contained in subsection 3.2 of this report.

1.3.5 The Auditor General reported on the Province's 1982-83 consolidated financial statements as follows:

## AUDITOR'S REPORT

To the Members of the
Legislative Assembly

I have examined the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1983 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta as at March 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting described in Note 1 to the consolidated financial statements applied, except for the change in the method of recording incentive grant expenditures and after giving retroactive effect to the change in the method of valuing and reporting certain investments, as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

C.A.
Auditor General

Edmonton, Alberta
December 9, 1983

1.3.6 The above report is the culmination of the majority of the work done each year by the Audit Office and, in effect, covers more than just the consolidated financial statements and the consolidation process. It also covers and relies on the 1982-83 audits of the various consolidated entities. These include the twenty-five departments and other offices that comprise the General Revenue Fund, together with approximately seventy Provincial agencies and funds.

Each of these audits calls for a separate and independent auditor's report, and accordingly, must be performed to a much more detailed level of precision than would otherwise be needed to support the report on the consolidated financial statements.

During each audit, all transactions selected for audit examination are also reviewed to see whether they have the necessary legislative authority. In addition, all significant accounting and financial control systems are reviewed so that apparent weaknesses can be reported to management and, where appropriate, to the Legislative Assembly. Key financial controls in these systems are compliance tested each year to determine whether they are working effectively. Significant financial systems that are not tested each year are compliance tested every few years on a rotational basis. Since many of the key controls reviewed and tested are requirements of the Treasury Department's Manual of Financial Administration, much of the audit work performed on internal control systems is, in effect, auditing for compliance with legislative authority. This explains why many of the matters reported in the Auditor General's management letters and annual reports deal with systems deficiencies and instances of non-compliance with legislation.

These audits, together with the annual audits of other entities such as the universities, colleges, hospitals and irrigation districts, are performed in accordance with generally accepted auditing standards duly augmented as explained in subsection 4.3 of this report and represent the bulk of the work of the Audit Office.

1.3.7 The consolidated financial statements show that for the 1982-83 fiscal year, the Province recorded a consolidated net expenditure, ie. an annual deficit, of $794 million (1981-82 annual surplus – $2,133 million). They also show that at March 31, 1983, the consolidated net assets of the Province, ie. the accumulated surplus, was $11.3 billion (March 31, 1982 – $12.1 billion).

As explained more fully in section 3 of this report, annual and accumulated deficits/surpluses must be interpreted by reference to the accounting principles and consolidation methods employed in preparing the consolidated financial statements. Although these principles and methods are employed and accepted in many governmental jurisdictions and are explained in a note to the financial statements, they are not, in several respects, the generally accepted accounting principles that apply to profit oriented organizations.

For example, the $11.3 billion accumulated surplus at March 31, 1983 does not reflect the Province's substantial unrecorded liabilities for future pension plan obligations. Moreover, it does not include the value of land and buildings purchased and owned by the Province, or the millions of hectares of Crown lands and resource rights that attach thereto. The costs of acquiring land, buildings and other fixed assets are treated as expenditures in the years in which they are incurred, rather than being treated as assets with a continuing value as is normal in non-government situations.

For these and similar reasons, the Province's reported annual deficit and accumulated surplus may be misleading unless the reader understands what the figures include (and don't include) and their basis of presentation.

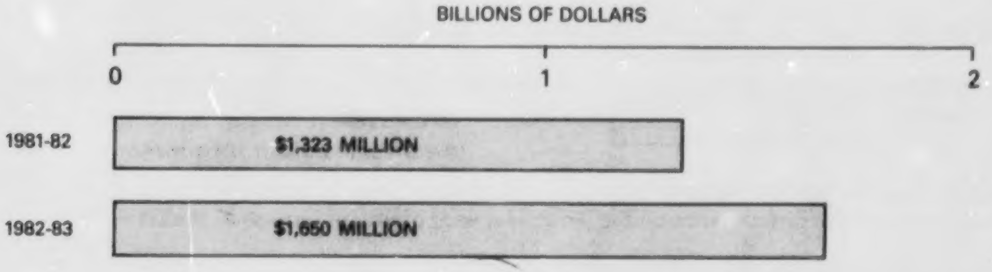
Until recently, it was common for the annual surplus or deficit of the General Revenue Fund to be referred to as the Province's surplus or deficit. Similarly, the General Revenue Fund's accumulated surplus or deficit was referred to as the Province's accumulated surplus or deficit. To do so today is erroneous since it ignores the very considerable revenues and expenditures, and assets and liabilities of the Alberta Heritage Savings Trust Fund and the Province's numerous other funds and agencies through which the Government administers the affairs of the Province. An overall view of the Province's financial affairs is available only in the consolidated financial statements.

1.3.8 The consolidated revenue for 1981-82 and 1982-83 reported in the Province's public accounts is as follows:

| | 1981-82 | 1982-83 | Increase (Decrease) | |
|---|---|---|---|---|
| | (Millions of Dollars) | | | |
| Taxes | $ 2,122 | $ 1,922 | $(200) | (9.4)% |
| Non-renewable resource revenue | 4,879 | 4,850 | (29) | (0.6)% |
| Payments from Government of Canada | 1,144 | 1,131 | (13) | (1.1)% |
| Fees, permits and licenses | 413 | 422 | 9 | 2.2 % |
| Utility and trading profits | 189 | 220 | 31 | 16.4 % |
| Other | 1,801 | 2,005 | 204 | 11.3 % |
| | $10,548 | $10,550 | $ 2 | |

The following explains some of the more significant variances in consolidated revenue, as reported in the public accounts, between the 1981-82 and 1982-83 fiscal years:

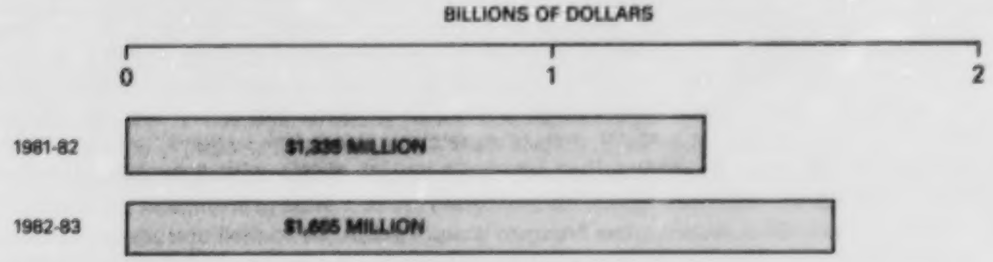
**Personal income taxes, net**



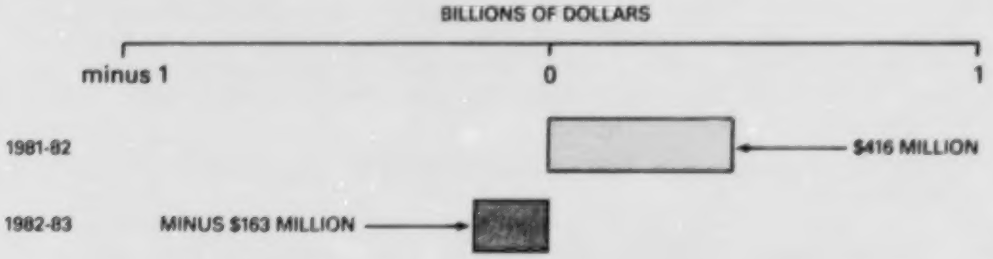
Personal income taxes, net during 1982-83 increased by $327 million or 24.7% compared to 1981-82.

The increase was caused mainly by changes to the federal income tax Act, as well as growth in the Province's population and individual incomes.

The above chart shows personal income taxes net of various deductions and allowances, including royalty tax credits and royalty tax rebates. If these credits and rebates were excluded, the chart would be as follows:



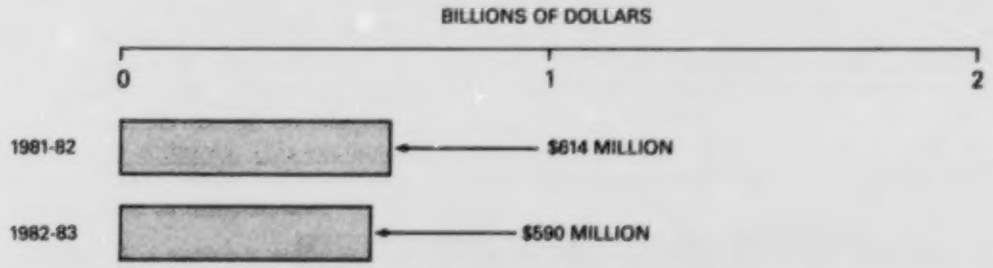
## Corporate income taxes, net



Corporation income tax, net during 1982-83 decreased by $579 million or 139.2% compared to 1981-82.

The reduction was caused mainly by increased royalty tax credits and the introduction of the instalment plan to repay royalty tax credits in advance of income tax returns being filed.

The above chart shows corporation income tax net of various deductions and allowances, including royalty tax credits and royalty tax rebates. If these credits and rebates were excluded, the chart would be as follows:

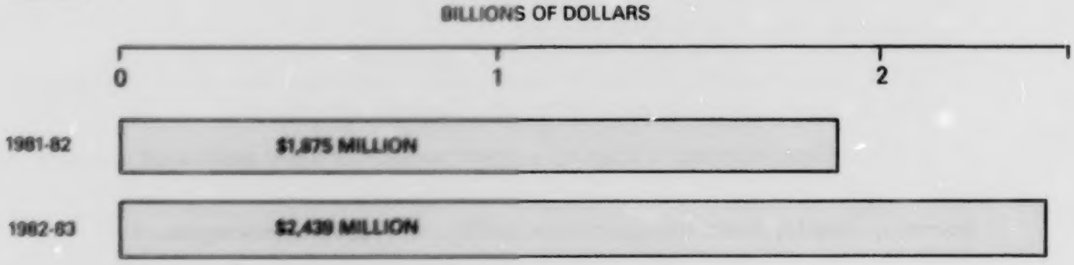


1.3.9 The consolidated expenditure for 1981-82 and 1982-83 reported in the Province's public accounts is as follows:

| | 1981-82 | 1982-83 | Increase | |
|---|---|---|---|---|
| | (Millions of Dollars) | | | |
| Health | $1,875 | $ 2,439 | $ 564 | 30.1% |
| Education | 1,711 | 2,062 | 351 | 20.5% |
| Social, cultural and recreational development | 1,682 | 2,111 | 429 | 25.5% |
| Economic development, transportation utilities and resource management | 2,281 | 3,760 | 1,479 | 64.8% |
| Justice, policing and correctional institutions | 270 | 318 | 48 | 17.8% |
| General government | 596 | 654 | 58 | 9.7% |
| | $8,415 | $11,344 | $2,929 | 34.8% |

The following explains some of the more significant variances in consolidated expenditure, as reported in the public accounts, between the 1981-82 and 1982-83 fiscal years:

**Health**



Health expenditure during 1982-83 increased by $564 million or 30.1% compared to 1981-82.

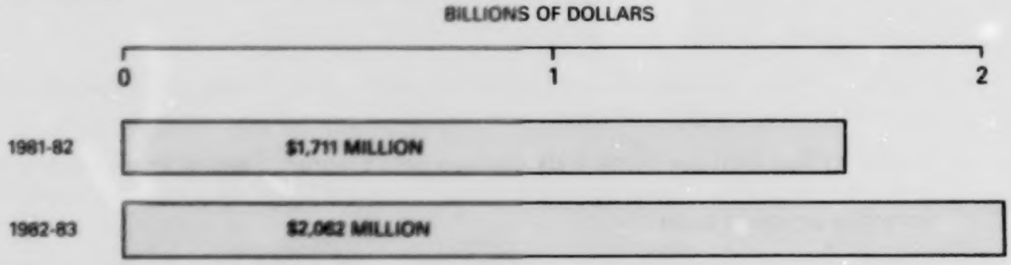
The main reasons for this increase were:

— A $243 million (29%) increase in operating grants to active care hospitals.

— A $120 million increase in the expenditure of the Health Care Insurance Fund, mainly because medical health services costs increased by $91 million.

— A $103 million increase in financial assistance for capital construction at various Provincial hospitals.

**Education**



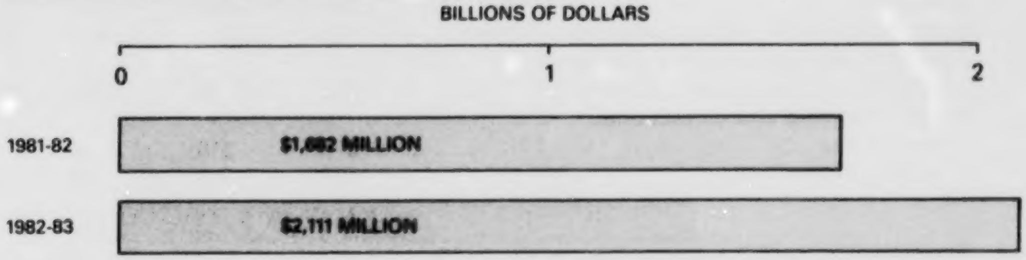
Education expenditure during 1982-83 increased by $351 million or 20.5% compared to 1981-82.

The main reasons for this increase were:

— A $129 million increase in assistance to higher and further education, mainly because of a 16% increase in operating grants to universities, public colleges and technical institutions.

— A $136 million increase in the expenditures of the School Foundation Program Fund, mainly to finance a $107 million increase in basic operating grants to schools to cover instruction, transportation and school administration; also to finance a $29 million increase in the building quality restoration program and to retire debt.

## Social, cultural and recreational development



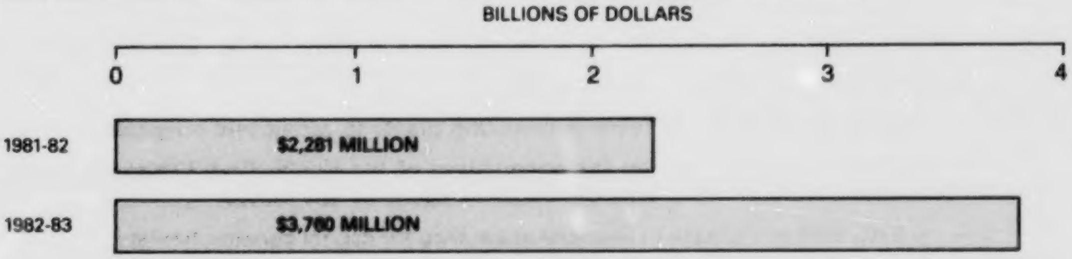
Social, cultural and recreational development expenditure during 1982-83 increased by $429 million or 25.5% compared to 1981-82.

The main reasons for this increase were:

— A $120 million (55%) increase in expenditure under the social allowance program mainly due to larger case-loads and increased income support levels.

— A $78 million increase in financial support under municipal assistance programs.

## Economic development, transportation, utilities and resource management



Economic development, transportation, utilities and resource management expenditure during 1982-83 increased by $1,479 million or 64.8% compared to 1981-82.

The main reasons for this increase were:

— Payments totalling $684 million for incentive grants and expenses under the Alberta Petroleum Incentives Program established in 1982-83.

— A $280 million increase in minerals management program costs, primarily due to new oil and gas industry incentives costing $250 million and a $28 million increase in geophysical incentive program costs.

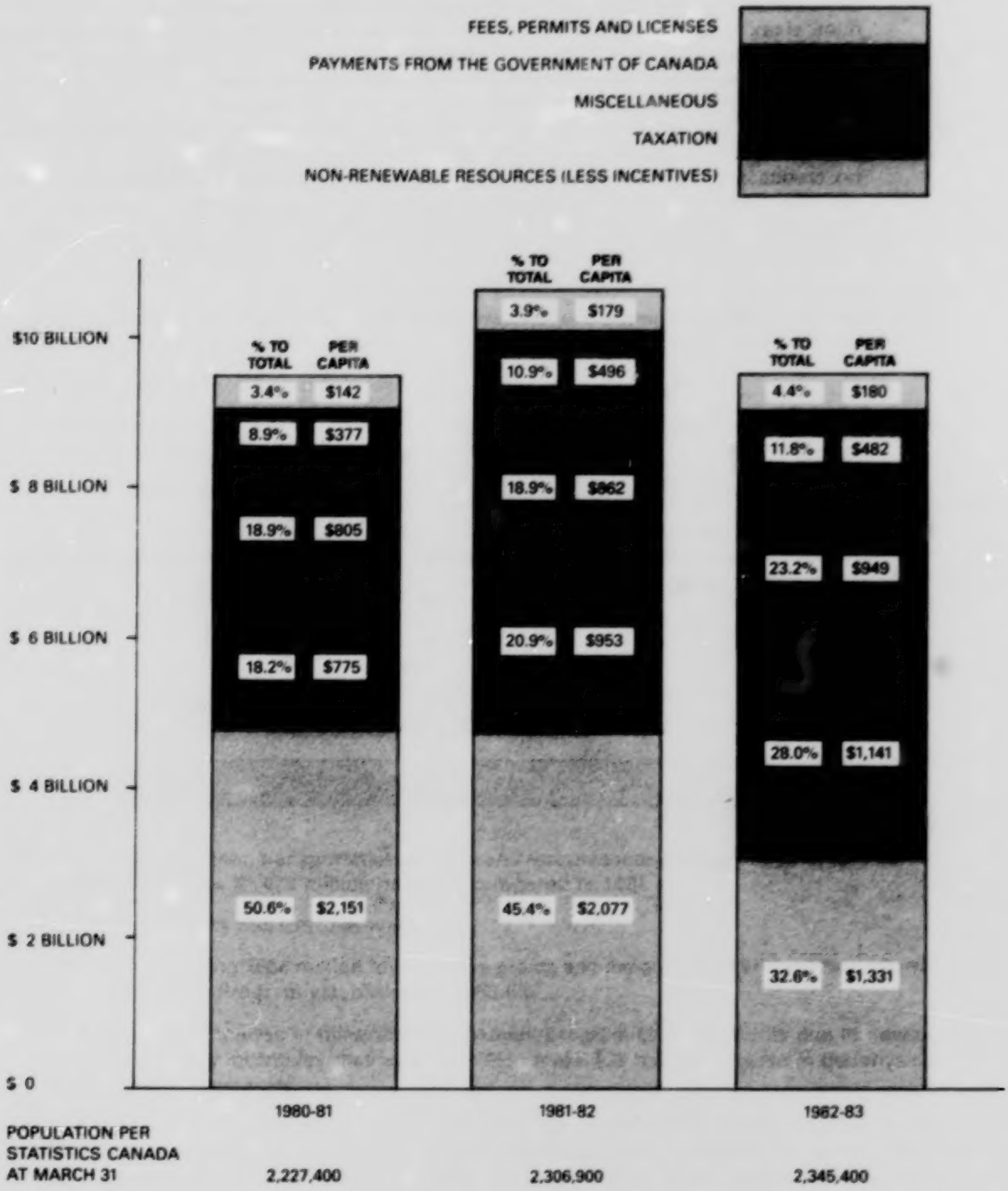
— A $119 million increase in highway construction and maintenance costs under programs for the continued expansion of the primary highways system, the rural/local highways system, pavement rehabilitation, and financial assistance to municipalities for rural/local highways.

— Payments totalling $93 million under the Alberta Heritage Fund mortgage interest reduction program established in 1982-83.

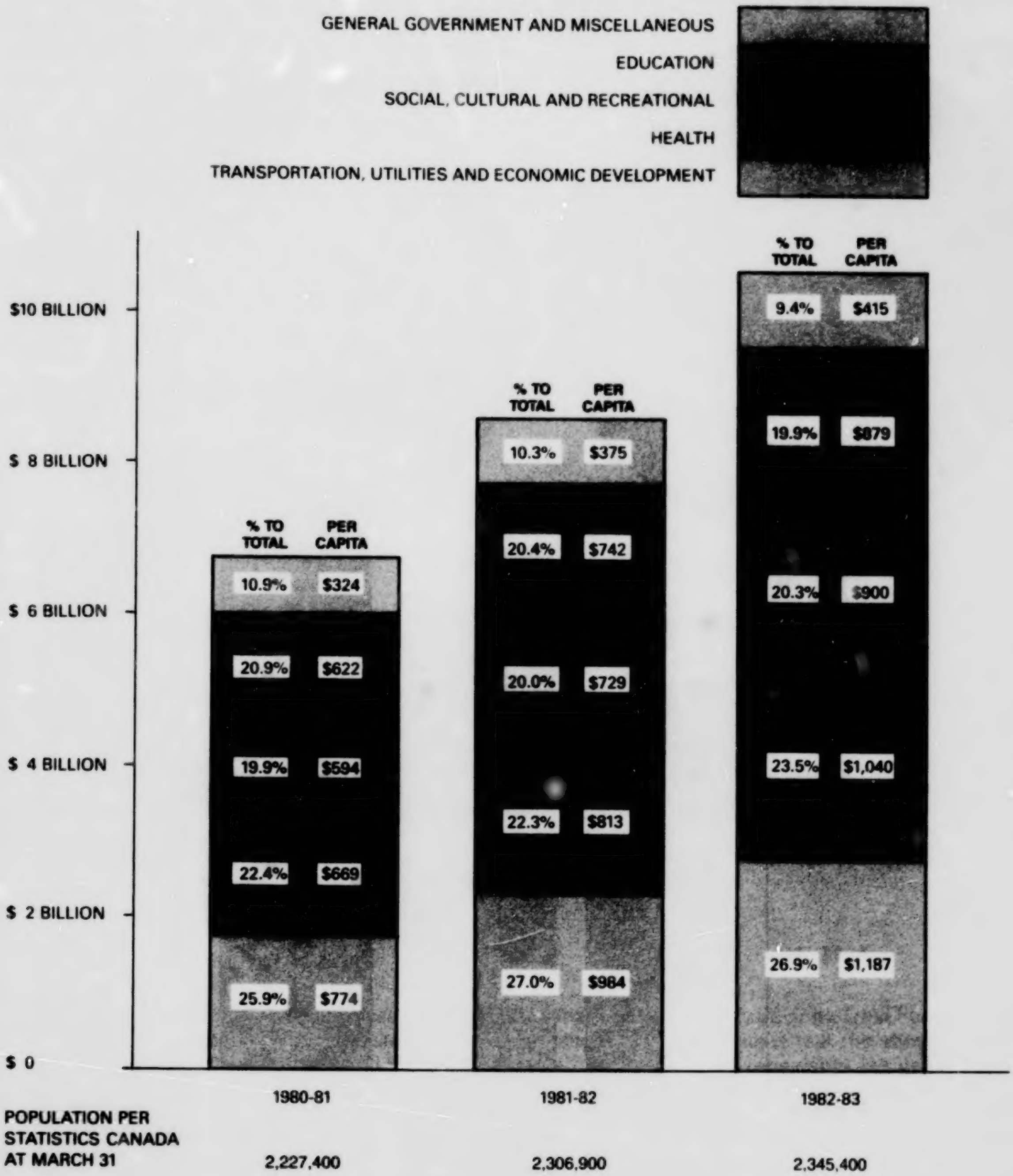
1.3.10 In the public accounts, financial information is properly displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. Pursuant to subsection 19(3)(b) of the Auditor General Act, however, the following charts display some of the same financial information in an alternative and simplified manner.

In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than the basis used in the public accounts. For example, in the charts freehold mineral tax is included in non-renewable resource revenue, whereas in the public accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting from gross non-renewable resource revenue, costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates, petroleum incentive program grants, well servicing and developmental drilling incentives, and geophysical and exploratory drilling incentives. In the public accounts, royalty tax credits and rebates are reflected as deductions from tax revenue, while some costs under the other incentive programs are reflected as economic development and resource management expenditure.

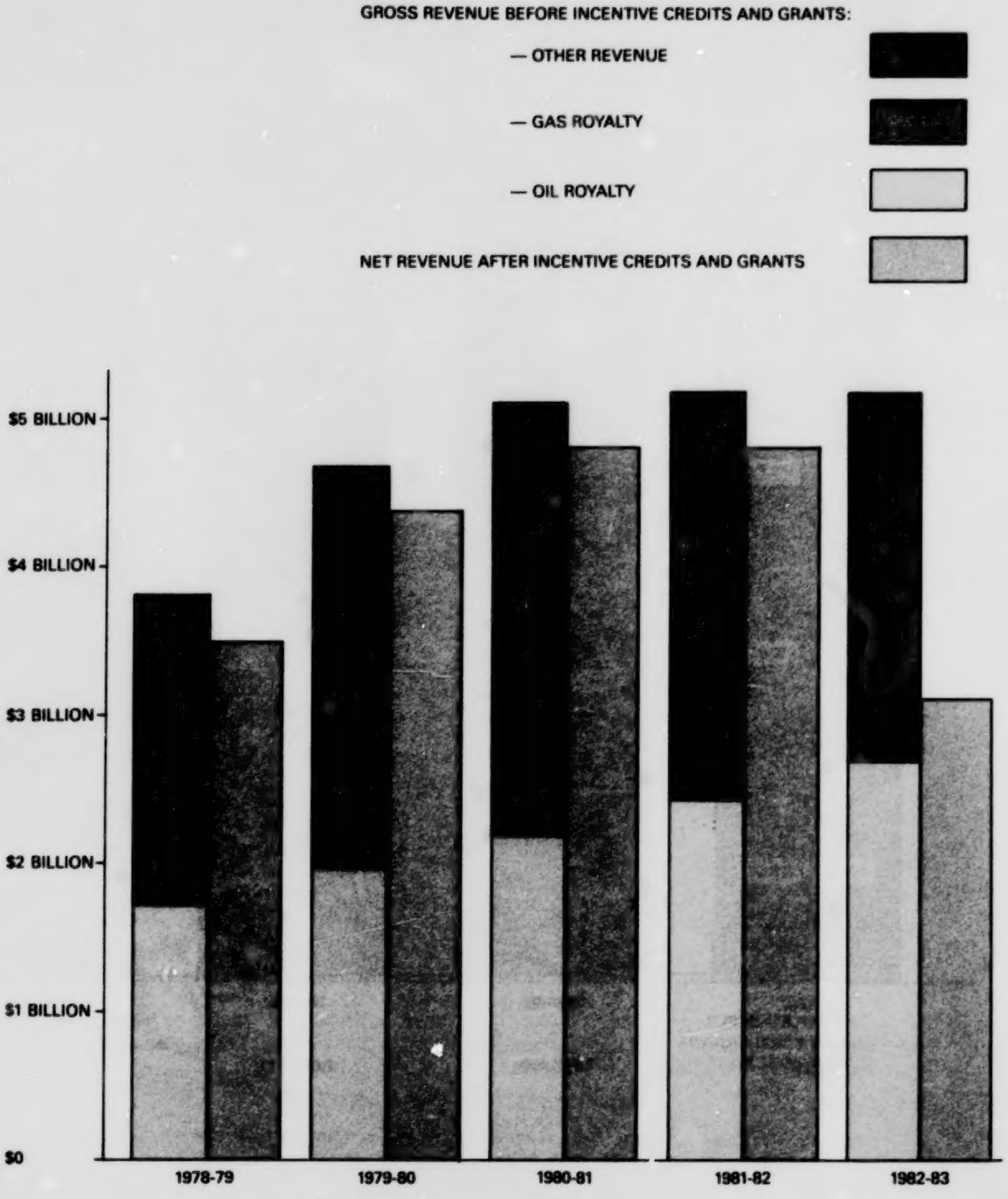
1.3.11 The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years:



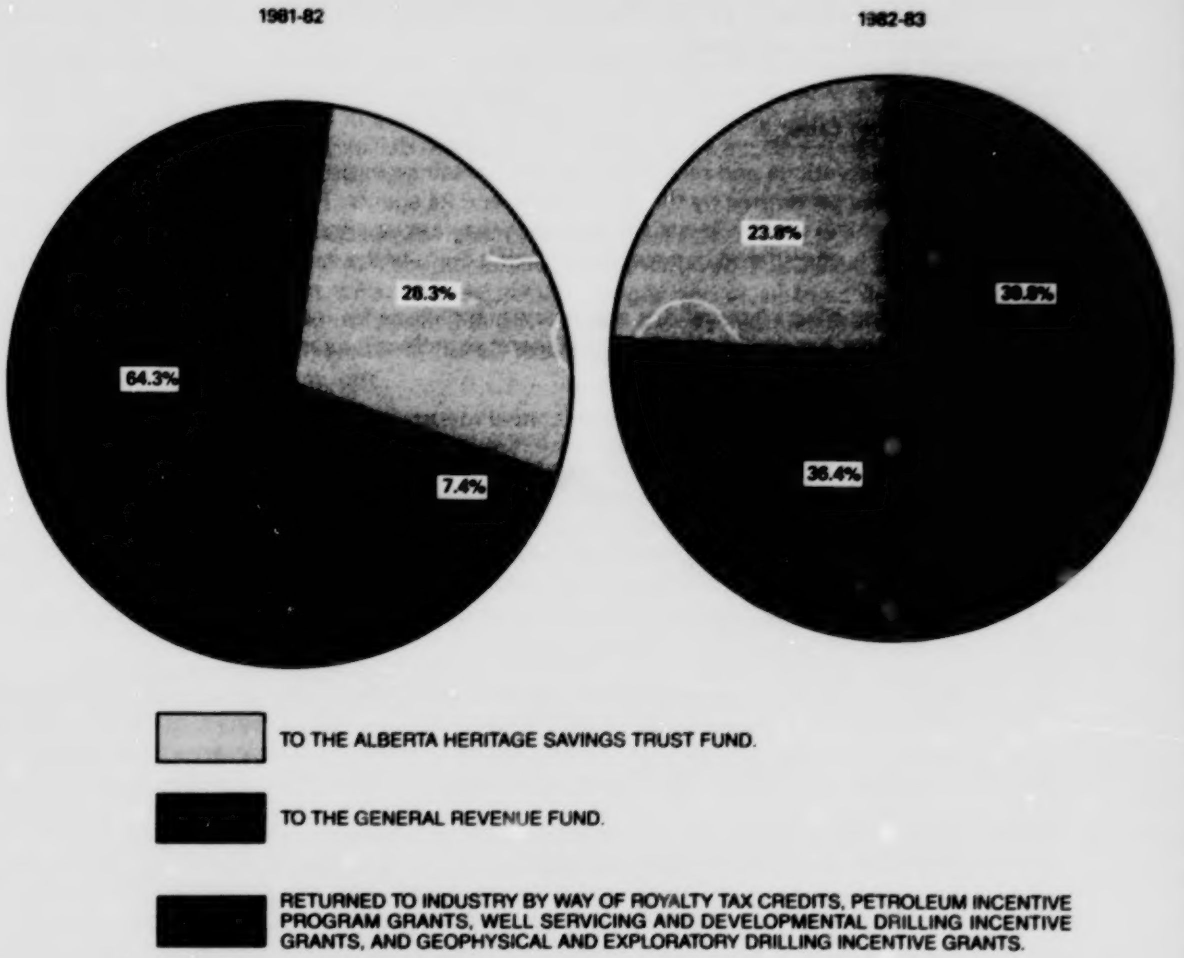
1.3.12 **The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years (excluding extraordinary expenditure):**



1.3.13 The following chart shows non-renewable resource revenue for 1978-79 to 1982-83 before allocations to the Alberta Heritage Savings Trust Fund. It shows that although gross revenue for 1982-83 was at approximately the same level as in the previous two years, increases in incentive credits and grants reduced significantly the Province's net revenue from this source. Incentive credits and grants include royalty tax credits and rebates, petroleum incentive program grants, well servicing and developmental drilling incentive grants, and geophysical and exploratory drilling incentive grants.



1.3.14 The following chart compares the disposition of non-renewable resource revenue between 1981-82 and 1982-83. It illustrates how the portion of revenues allowed or returned to the oil and gas industry by way of incentive credits and grants increased during 1982-83.



NOTE: The disposition of non-renewable resource revenue to the Alberta Heritage Savings Trust Fund is less than the 30% stated in legislation for several reasons. The main one is that the annual transfer from the General Revenue Fund is calculated as 30% of non-renewable resource revenues net of certain incentive program costs, principally the $684 million paid under the Alberta Petroleum Incentives Program during 1982-83 (see also subsection 2.4.6 of this report).

# 2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

## 2.1 INTRODUCTION

2.1.1 This introduction is provided to acquaint readers with the criteria used by the Auditor General when deciding which observations and recommendations should be included in his annual reports, and also, how observations and recommendations are dealt with prior to their publication in annual reports.

### Reporting Criteria

2.1.2 The observations and recommendations contained in this report emanate from only a few of the audits performed by the Audit Office and its agents. The majority of annual audit findings are relatively routine in nature, and since they are usually addressed by management without delay, it is considered unnecessary to bring them to the attention of the Legislative Assembly.

2.1.3 When selecting observations and recommendations for inclusion in his annual reports to the Legislative Assembly, the Auditor General exercises judgement as permitted by two sections of the Auditor General Act:

Section 25 — does not require annual reports to include matters which, in the opinion of the Auditor General, are immaterial or insignificant.

Section 19(5) — allows the Auditor General to refrain from reporting deficiencies in systems and procedures otherwise subject to report under section 19(2)(d) and (e) of the Act when such deficiencies, in his opinion, have been or are being rectified.

These discretionary reporting powers allow the Auditor General's annual reports to concentrate on the more important reportable matters.

When exercising these discretionary powers, the Auditor General considers the circumstances surrounding each potentially reportable system deficiency. Assurances by management that corrective action has been, or is being, taken to eliminate the observed deficiency will affect, though not determine, the decision whether or not to include the matter in the annual report.

2.1.4 Notwithstanding the above, it should not be concluded that management has not begun to take steps, or is unwilling to take steps, to rectify system deficiencies included in this report. Where observed deficiencies are sufficiently prevalent and/or significant, they are included herein even though steps are being taken, or have been taken, to rectify them.

Occasionally it is found that management has not taken the action promised to eliminate a system deficiency, or that the action taken was ineffective. In these circumstances, the matter is normally included in the annual report, even where further assurances of remedial action are received. These matters are highlighted by including them in a separate subsection of this report (see subsection 2.5) entitled UNCORRECTED SYSTEMS WEAKNESSES AND DEFICIENCIES ORIGINALLY DETECTED IN PREVIOUS YEARS.

The Auditor General believes that by exercising his discretionary reporting powers in this manner he can, in most cases, influence management to correct system deficiencies reasonably promptly without needing to bring them to the attention of the Legislative Assembly. A further advantage is that his annual report is not cluttered with observations on system deficiencies, many of which are rectified before the report is tabled.

### Annual Report Recommendations

2.1.5 As in previous years, the Auditor General's formal recommendations are consecutively numbered. In addition, a complete tabulation of all recommendations is included in the final section of the report.

This report also continues the practice of bringing forward from previous annual reports recommendations that remain unimplemented. Furthermore, so that readers can determine how long a recommendation has remained outstanding, the fiscal year of the annual report in which the recommendation first appeared is noted in parentheses above and to the right of the repeated recommendation. Recommendations are similarly dated in circumstances where, although the wording has changed, the main thrust of the recommendation remains the same.

2.1.6 In a few instances, the Government has rejected or has deferred a decision on recommendations contained in prior years' annual reports. These recommendations, together with a brief rationale of their status, are listed in subsection 2.6 of this report entitled MATTERS SUBJECT TO RECOMMENDATION IN PREVIOUS ANNUAL REPORTS THAT WERE EITHER REJECTED OR ARE NOT COMPLETELY RESOLVED.

2.1.7 The Auditor General's 1981-82 annual report was laid before the Legislative Assembly in April 1983. Many of the recommendations contained therein required discussion and decisions by management, while others called for legislative changes and/or systems development and implementation, before the problems that gave rise to the recommendations could be eliminated. For these reasons, therefore, not all matters previously reported could be dealt with before publication of this report.

2.1.8 In October 1983, the Provincial Treasurer issued a report to the Select Standing Committee on Public Accounts (reproduced in Appendix II of this report) which contained responses to each of the 47 recommendations in the Auditor General's report for the 1981-82 fiscal year. Many of those responses are quoted or referred to throughout this report. Although some responses indicated that the Government was not in full agreement with all of the 1981-82 report recommendations, and in some cases the responses appear somewhat optimistic, the Auditor General was generally satisfied with the responses.

2.1.9 The audit observations and recommendations that appear in the Auditor General's annual reports undergo a rigorous process aimed at providing all concerned with an opportunity to challenge or provide input to what is reported.

### Communication of Audit Observations

2.1.10 At the conclusion of all audits, formal meetings (exit conferences) are held to discuss audit findings and recommendations. These exit conferences are attended by Audit Office representatives and senior financial and other management officials of the auditee. The main purposes of these meetings are to ensure that management is fully apprized of all matters arising from the audit, to discuss proposed recommendations for corrective action and to provide an opportunity for comments by management before the report on the financial statements and the management letter are issued. Minutes of matters discussed are prepared by the Audit Office and are circulated to those who attend the meetings, thereby minimizing the risk of misunderstandings in connection with matters raised or action promised.

Audit observations and recommendations judged by the Auditor General to be of concern to senior management, are then incorporated into a management letter to the deputy minister or senior executive officer responsible for the audit entity. Copies of all management letters are forwarded to the appropriate minister and to the Secretary to the Treasury Board, except for Provincial agencies exempt under section 2(5) of the Financial Administration Act.

2.1.11 Subsequently, the Auditor General decides which observations and recommendations are important enough to be reported to the Legislative Assembly. In the course of preparation, draft copies of the annual report are reviewed by the Government's Audit Committee, of which the Provincial Treasurer is a member. Finally, before the annual report is printed, all ministers and deputy ministers or chief executive officers are informed of what the report contains relating to areas for which they are responsible.

## General

2.1.12 In the remainder of this section of the report, occasional references are made to the Treasury Department's Manual of Financial Administration. This manual was issued by the Office of the Controller pursuant to section 13 of the Financial Administration Act, under which authority is delegated by the Provincial Treasurer to prescribe administrative procedures respecting financial records and accounting systems and the receipt and disbursement of public money. The Manual of Financial Administration complements the Alberta Financial Information System (AFIS) User Manual which is designed for use by senior administrators and financial officers in exercising an overall system of internal control for their departments.

## Reservations in Auditor's Reports on Financial Statements

2.1.13 The Auditor General expressed reservations in his opinions on the financial statements of thirteen entities audited for the 1982-83 fiscal year of the Crown. These are reported as required by section 19(2) of the Act:

2.1.14 Six reservations of opinion were because the financial statements of:

— Alberta Environmental Research Trust,

— Alberta Games Council,

— Calgary Olympic Development Association,

— The Alberta Historical Resources Foundation,

— The Canadian Association of Youth Orchestras, and

— XV Olympic Winter Games Organizing Committee

include revenue derived from donations. Revenue of this nature cannot be audited for completeness in accordance with generally accepted auditing standards.

It should be noted that these reservations of opinion do not reflect adversely on the records or the financial statements of the above entities. Rather, they are a product of the nature of donation revenue. For most types of revenue, an auditor can calculate or anticipate the completeness of recorded revenue by reference to the auditee's production or sales records, or by independent verification. Where donations are received from the public, however, the auditor can do no more than examine the amounts that are recorded as having been received. He cannot verify that all donations received have been recorded.

In these circumstances, generally accepted auditing standards require the auditor to express a reservation of opinion on the financial statements by drawing attention to the nature of the revenue and describing the limited audit work that was possible.

2.1.15 Two reservations of opinion were because the financial statements of:

— Alberta Hospital Edmonton, and

— Alberta Hospital Ponoka

reflect assets and liabilities considered to be transferred to the respective entities, but where the transfer has not been effected in the manner required by legislation.

Before October 1, 1982, these hospitals operated and reported annually as institutions within the Department of Social Services and Community Health. Since that date, however, they have been administered independently by Mental Health Hospital Boards under the authority of Part 5 of the Mental Health Act. The Act also requires these hospitals to publish annual reports containing audited financial statements.

The legislation that transferred administrative authority to the Hospital Boards also provided for certain assets and liabilities to be transferred to them by Order of the Lieutenant Governor in Council.

The financial statements of the two hospitals for the six months ended March 31, 1983, were prepared on the assumption that the assets and liabilities on the balance sheets at October 1, 1982, were transferred to the hospitals effective that date. However, until specific Orders in Council are passed, the assets and liabilities will not legally belong to the hospitals.

For the above reasons, the Auditor General was unable to satisfy himself concerning the ownership and value of certain assets and liabilities reported as belonging to the two hospitals, and accordingly, expressed reservations of opinion on their financial statements.

2.1.16 One reservation of opinion was on the financial statements of the Health Care Insurance Fund. Because of a legislative amendment on June 6, 1983, the costs of certain basic health services for injured workers, which had been borne by the Fund since January 1, 1982, became the responsibility of and reclaimable from The Workers' Compensation Board. At the conclusion of the Fund's 1982-83 annual audit, no arrangement had been finalized between the Board and the Minister of Hospitals and Medical Care as to the amount to be reimbursed. The Auditor General expressed a reservation of opinion in his report on the financial statements due to the uncertainty created by the above situation. This matter is discussed more fully in subsection 2.2.12 of this report.

2.1.17 One reservation of opinion was because the Auditor General was unable to satisfy himself concerning the ownership and value of certain assets included in the financial statements of the Alberta Research Council. This matter is discussed more fully in subsection 2.5.1 of this report.

2.1.18 One reservation of opinion was because Fairview College had not included in its financial statements for the year ended June 30, 1982, the value of certain assets transferred from the Department of Advanced Education and Manpower to the College when it received public college status in April 1978. The Auditor General reserved his opinion on the College's 1982-83 financial statements for the same reason.

2.1.19 One reservation of opinion was because the financial statements of The Workers' Compensation Board contain reserves for specific claims costs and an estimated liability for future claims costs which cannot, at present, be audited to satisfy generally accepted auditing standards. In effect, this is a limitation in the audit scope similar to that pertaining to donation revenue described in paragraph 2.1.14 above.

Reserves and liabilities of this nature can only be estimated with reasonable accuracy after sufficient time has elapsed and sufficient experience has been gained to ensure that the data and trends on which the estimates are based are dependable. Until then, the Auditor General will continue to express reservations of opinion on the financial statements. This is not because the Auditor General believes that the reserves and liabilities are inaccurate, but rather, because there is insufficient evidence for him to be satisfied that they are accurate or reasonable.

2.1.20 One reservation was because the financial statements of the Land Purchase Fund contain transactions that were not believed to be within the authority of the Government Land Purchase Act. This matter is discussed more fully in subsection 2.2.15 of this report.

2.1.21 In all other cases, the Auditor General reported without reservation that the financial statements examined present fairly the financial position of the entity at March 31, 1983 (or such other accounting period within the year ended March 31, 1983), and the results of its operations for the periods covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

## 2.2 INADEQUATELY SAFEGUARDED ASSETS AND NON-COMPLIANCE WITH LEGISLATION

(Reported pursuant to subsections 19(2)(a), (b) and (c) of the Auditor General Act)

### 2.2.1 CORPORATE TAX REFUNDS

In his 1981-82 annual report (subsection 2.3.1), the Auditor General noted that the Province of Alberta had refunded, without statutory authority, tax instalments received from corporations. It was recommended that the Alberta Corporate Income Tax Act be amended to allow the Provincial Treasurer discretion, in prescribed circumstances, to refund corporate income tax instalments received.

The Act has since been amended to provide the necessary discretion and, accordingly, the recommendation is not repeated in this report.

### 2.2.2 DEPARTMENT OF CONSUMER AND CORPORATE AFFAIRS – TRUST FUNDS

Monies were transferred from the Orderly Payment of Debts Trust and the Debtors' Assistance Trust to the General Revenue Fund in circumstances that cast doubt on the legality of the transfers.

The Orderly Payment of Debts Trust holds monies paid by debtors to the Clerk of the Court of Queen's Bench pending payment of those monies to creditors on the instructions of the Clerk. The Debtors' Assistance Trust holds monies paid by debtors to the Debtors' Assistance Board pending the working out of satisfactory arrangements with creditors for settling the outstanding debts. Both trusts are administered by the Department of Consumer and Corporate Affairs.

During the 1982-83 annual audit, it was observed that the Department had adopted the practice, from time to time, of transferring from the trust accounts to the General Revenue Fund:

- bank interest earned on monies held in the trust accounts,
- amounts representing cheques written against the trust accounts, where the cheques had not been presented for payment within six months, and
- amounts that were held in the trust accounts for more than six months where such amounts are too small to warrant paying to the creditors.

Since the statutes under which the trusts are administered do not provide specifically for monies to be transferred to the General Revenue Fund in any of the circumstances listed above, the transfers appear to lack legislative authority.

The Auditor General sought independent legal advice on this matter and several additional questions were raised concerning the manner in which the Province administers the Orderly Payment of Debts trust. These relate to the extent, if any, to which the trust is subject to Alberta law, whether it is a trust in the true legal sense, and the determination of who or what is the beneficiary.

*Recommendation. (No. 1)*

*It is recommended that the Department of Consumer and Corporate Affairs either:*

- *comply with the Orderly Payment of Debts Provisions of the federal Bankruptcy Act when paying monies from the Orderly Payment of Debts Trust, and*
- *comply with the Debtors' Assistance Act when paying monies from the Debtors' Assistance Trust,*

*or seek legislative amendments to identify the circumstances in which such monies may be transferred from the trusts to the General Revenue Fund. Furthermore, action should be taken to resolve the legal uncertainties relating to the administration of funds held by the Orderly Payment of Debts trust.*

## 2.2.3 DEPARTMENT OF ECONOMIC DEVELOPMENT – HOPPER CAR PURCHASE

The annual audit of the Department of Economic Development revealed that the Alberta Heritage Savings Trust Fund (Heritage Fund) had overpaid by $81,401 the cost of purchasing a consignment of two hundred hopper cars for the Canadian Wheat Board.

The hopper cars paid for by the Heritage Fund were part of a larger consignment of cars purchased through the Canadian Wheat Board. Payment for the two hundred hopper cars was processed by the Department of Economic Development using funds appropriated from the Heritage Fund.

During the 1982-83 annual audit, by mutual agreement with the Department, the Audit Office examined the Canadian Wheat Board's records in Winnipeg pertaining to the purchase of the hopper cars. It was observed that certain interest, freight and storage costs that related to cars to be paid for by the Government of Canada, had been incorrectly allocated to the whole consignment including those cars to be paid for by the Heritage Fund. The result of this incorrect allocation was that the Canadian Wheat Board overcharged the Province on the final pooled-price billing by $81,401. The Auditor General reported this situation to the Department which subsequently recovered this amount on behalf of the Heritage Fund.

The above matter is reported herein to comply with section 19(2) of the Auditor General Act. In view of its non-recurring nature, however, a related recommendation is not considered appropriate.

## 2.2.4 DEPARTMENT OF THE ENVIRONMENT – LAND ACQUISITION AND ADMINISTRATION

In his 1980-81 and 1981-82 annual reports (1981-82: subsection 2.3.5), the Auditor General commented on deficiencies in the procedures used by the Department of the Environment to acquire and administer real property. It was recommended that the Department take steps to eliminate the observed deficiencies and to ensure that appropriate legal advice is available when needed.

The 1982-83 annual audit revealed that the Department had begun to take appropriate remedial action, but that its Land Assembly Division and related functions were transferred to the Department of Public Works, Supply and Services effective August 1, 1983. Accordingly, the recommendation is not repeated in this report.

## 2.2.5 DEPARTMENT OF ENERGY AND NATURAL RESOURCES – MINERAL REVENUE AUDITS

The Mineral Revenues Division Audit Section of the Department of Energy and Natural Resources audits each year the records of a sample of resource royalty payers to obtain assurance that the Province in receiving the royalties to which it is entitled. Mineral revenue royalties represent a substantial portion of the Province's revenues, for which reason, the Audit Office each year reviews the activities of the Mineral Revenues Division Audit Section. In his 1981-82 annual report (subsection 2.3.2), the Auditor General asked that the Audit Office be given legal access, similar to that of the Department, to the appropriate records of royalty payers. This access was for the purpose of joining, at the Auditor General's discretion, any Departmental audit in progress and thereby evaluating the effectiveness of the Mineral Revenues Division Audit Section's activities.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer responded to the Auditor General's request as follows:

> "The Auditor General Act establishes an auditor and auditee relationship between the Auditor General and the Department. It is inappropriate to have the same relationship established between the Auditor General and the royalty payer. Under the present arrangements, the Auditor General has access to all of the departmental information bearing on the auditing methods used by the Department. All audit working papers of the Department are available to the Auditor General and the current legislation also enables him to be an observer during the Department's audit of royalty payers. Therefore, it is not necessary to provide the Auditor General with additional access rights."

During the 1982-83 annual audit of the Department, the Audit Office reviewed the activities of the Mineral Revenue Division Audit Section. As part of this review, Audit Office representatives observed an audit in progress and participated in meetings relating thereto. The Audit Office was satisfied that the observed audit was conducted properly and that it achieved its stated objectives. Furthermore, Departmental staff indicated that Audit Office representatives will continue to be welcome as observers on their audits. In view of the Department's ready co-operation, the Auditor General's recommendation is not repeated in this report.

The auditing activities of the Mineral Revenue Division Audit Section resulted in additional billings for unpaid royalty in excess of $22 million during 1982-83. In the view of the Auditor General, this figure confirms that Mineral Revenue Division Audit Section field audits are essential to ensuring that the Province receives the royalty revenue to which it is entitled, and that the additional revenue billed compensates many times over for the costs involved in conducting the audits.

### 2.2.6 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH – HEALTH UNIT FUNDING

The Department of Social Services and Community Health is funding local health units in a manner that does not comply with the Health Unit Act.

The Department provides 100% funding for local health units by means of annual operating grants paid quarterly under the Community Social and Health Services Program. Section 17 of the Health Unit Act, however, requires health units to repay to the Department any unexpended grants that are shown to be surplus by the units' audited financial statements.

The same section of the Act also requires health units to file a copy of their audited financial statements with the Department within ninety days of the end of each fiscal year; that is, by June 30 each year. Although the Act does not specify the date by which surplus grant monies shall be repaid, it seems logical to assume that repayment should be within the time frame specified for filing the audited financial statements that identify the surplus; ie. by June 30 each year.

Before April 1983, the Department's normal practice was to obtain repayment of surpluses attributable to previous years, by deducting such surpluses from operating grants paid to health units for the third quarter (October to December) of the following fiscal year. This allowed health units to retain surplus grant monies for over 180 days, rather than the 90 days inferred by the Act. Moreover, by allowing these deductions to reduce program expenditures for the following year rather than treating them as refunds of prior years' expenditures, the Department in effect made more funds available for it to spend than were approved by the Legislative Assembly.

With effect from April 1, 1983, the Department changed its policy governing the repayment of surplus grants. Under the new policy, the Department allows health units to retain permanently out of any surplus grants for 1982-83, an amount equal to the greater of 1 1/2% of the 1982-83 operating grants or $25,000. It appears that the Department adopted this policy in the knowledge that the policy does not comply with the Health Unit Act, but anticipating a legislative amendment to sanction it. At the present time, however, allowing health units to retain surplus grant monies in this manner constitutes disbursement of public funds without legislative authority.

*Recommendation: (No. 2)*

*It is recommended that the Department of Social Services and Community Health adhere to the provisions of section 17 the Health ~~Care~~ Unit Act in its administration of operating grants to local health units. Furthermore, for accounting purposes, the Department should treat repayments of grant monies by health units as expenditure refunds for the fiscal years to which the original grant related.*

## 2.2.7 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH – IMPROPERLY APPROVED EXPENDITURE

In his 1981-82 annual report (subsection 2.3.3), the Auditor General described a situation in which one of the Department's expenditure officers had deliberately attempted to pay for goods received during 1982-83, using funds provided by the Legislative Assembly for expenditures pertaining to the 1981-82 fiscal year. It was recommended that the Department's expenditure and accounting officers be directed to exercise more care in adhering to legislative requirements respecting the receipt of goods and services, and payment therefor.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer stated that the Associate Deputy Minister of Social Services and Community Health has reminded the Department's expenditure and accounting officers of the importance of adhering to Government policy regulating the receipt of goods and services and payment therefor. Furthermore, no instances of non-compliance with these requirements were observed during the audit for the 1982-83 fiscal year. Accordingly, the recommendation is not repeated in this report.

## 2.2.8 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH – PUBLIC ASSISTANCE OVERPAYMENTS

Weaknesses continue to exist in the systems designed to prevent and recover public assistance overpayments under the Department of Social Services and Community Health's Social Allowance Program.

In his 1980-81 and 1981-82 annual reports (1981-82: subsection 2.3.4), the Auditor General noted that public assistance overpayments and repayments receivable had increased substantially during those two years. From a total of $8.3 million at March 31, 1980, the amount outstanding had increased to $11.7 million at March 31, 1981 and to $13.5 million at March 31, 1982. Moreover, the increase during 1981-82 would have been greater had not $2.3 million of uncollectibles been written off during that year.

Overpayments receivable are social allowances paid in excess of amounts to which the recipients were entitled and, therefore, are repayable to the Department. Repayments receivable are advances or loans to public assistance recipients to cover rent and utility deposits, property tax arrears, purchase of trade tools and other similar outlays. In general terms, overpayments receivable result from errors and therefore are cause for additional concern, whereas repayments receivable are intentional loans so that increases therein reflect inflation and other economic conditions.

The annual audit of the Department for 1982-83 revealed that during that fiscal year, overpayments and repayments receivable rose by a further $5.2 million to $18.7 million. During the year, overpayments receivable increased from $6.4 million to $7.8 million, and repayments receivable increased from $7.1 million to $10.9 million.

The audit also revealed that the following previously reported weaknesses still existed in the systems and procedures used by the Department to approve and process social allowance payments:

— Data decision sheets were not always processed quickly enough to prevent social allowance payments being made on the basis of outdated information.

Data decision sheets are forms used to record the information necessary to calculate social allowance payments. These forms are prepared at local district offices and forwarded to the Department's central office where the information they contain is input to the computer system which ultimately produces the cheques.

Where a recipient continues to be eligible for social allowance, the system will generate monthly cheques based on the information contained on the last data decision sheet processed. When a recipient ceases to be eligible, or the amount for which he or she is eligible changes, the local district office must submit the necessary information to the central office on a replacement data decision sheet.

Some overpayments occurred when replacement data decision sheets were not input to the computer system in time to stop or amend the cheques. This was usually caused either by excessive time elapsing between preparation of replacement data decision sheets and their input to the computer systems, and/or early cut-off dates for input of data.

— Information contained in social allowance recipients' files was often incomplete or outdated.

Overpayments occurred where social workers did not review the status of recipients and update their files (and prepare appropriate replacement data decision sheets) on a sufficiently frequent basis. Similarly, overpayments occurred where social workers did not verify the accuracy of information provided by social allowance recipients.

In his 1981-82 annual report, the Auditor General recommended that the Department strengthen its systems to minimize the incidence of overpayments resulting from the above weaknesses. He also recommended improved procedures for collecting overpayments and repayments receivable.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer replied to the Auditor General's recommendation as follows:

> "The Department is implementing a computer terminal system which will considerably reduce the time taken to process data decision sheets and update the recipients' financial information. This system should be fully operational by June 1984. In the interim, social workers have been advised to maintain complete and current client information on the recipients' files.
>
> The Department is currently finalizing an overpayment collection policy. Crown Debt Collections has located a collection unit with 6 staff, in Social Services and Community Health. This unit will assist in collecting overdue accounts receivable originating within the Department. It is expected that the amounts recovered will exceed the cost of operation of the collection unit."

Pending introduction of the new computer systems and other action to correct the observed systems deficiencies, the orginal recommendation is repeated, though in modified form.

*Recommendation: (No. 3)* *(1980-81: No. 12)*

*It is recommended that the Department of Social Services and Community Health continue to strengthen its procedures to minimize the incidence of overpayments to social allowance recipients. Areas requiring particular attention are:*

— *procedures to ensure that information contained in social allowance recipients' files is complete and up-to-date, and*

— *procedures to ensure prompt preparation and processing of data decision sheets.*

### 2.2.9 DEPARTMENT OF TRANSPORTATION – UNDUE RELIANCE ON AUDITORS' CERTIFICATES COVERING CONDITIONAL GRANT EXPENDITURES

The Department of Transportation appears to place undue reliance on the auditors' certificates it obtains (in the originally prescribed form) to satisfy itself that grants disbursed under the Urban Transportation Financial Assistance Program are expended for the purposes for which they were intended.

During 1982-83, the Department of Transportation disbursed operating and capital grants totalling $209 million under the Urban Transportation Financial Assistance Program. The purpose of these grants is to provide technical and financial assistance to urban municipalities for the establishment of local roads and streets, and public transportation systems serving intra- and inter-regional needs. Grants are disbursed pursuant to grant agreements and the Department's administrative procedures manual. As the administrator of the program, the Department is responsible for monitoring the ultimate expenditure of grants to ensure that they are spent in compliance with the terms of the grant agreements and the administrative procedures manual.

In administering the program, the Department reviews applications for funding to ensure that the project to be funded meets the program's eligibility criteria. In addition, when funding is provided its adequacy is reviewed by the Department at least every two years. The municipalities, however, manage the projects and the costs are audited by the municipalities' auditors.

The Department of Transportation does not attempt to review the projects' records to determine whether the grants were spent for the purposes for which they were intended. Rather, the Department relies on "certificates of audit" provided by the municipalities' auditors. These certificates of audit are required, by the Department's procedures manual, to contain the auditors' opinion as to whether or not the municipalities' financial statements present fairly the funding and expenditures provided in the conditional grant agreement. However, they are not required to contain an auditor's opinion as to whether the municipality has complied with the grant agreement and the administrative procedures manual. The auditor of one major funded project who was contacted by the Audit Office was not aware of the existence of the newest procedures manual that had been issued more than one year previously.

In the view of the Auditor General, the form of the audit certificates required by the manual and therefore obtained by the Department during the 1982-83 fiscal year did not provide the Department with adequate assurance that grants under the Urban Transportation Financial Assistance Program were expended for the purposes for which they were intended.

In a management letter to the Deputy Minister of Transportation at the conclusion of the 1982-83 audit, the Auditor General recommended that municipal auditors be required in future to provide more positive assurances relative to the treatment of conditional grant receipts and expenditures. He suggested that the Department's administrative procedures manual be amended to require auditors to report to the Department on the municipality's compliance with the terms and conditions of the grant agreement and the administrative procedures manual. The auditor should report in accordance with sections 5805 and 5815 (Special Reports) of the Canadian Institute of Chartered Accountants Handbook.

The Department has agreed to review the form of the audit certificates.

*Recommendation: (No. 4)*

*It is recommended that the Department of Transportation obtain assurance that grants disbursed under the Urban Transportation Financial Assistance Program are used for the purposes for which they were given. This could be achieved by obtaining opinions from the recipients' auditors that the financial information is presented fairly in accordance with the basis of accounting described in the agreement and whether the grants were expended in compliance with the grant agreements and the Department's administrative procedures manual.*

Many other departments and Provincial agencies disburse conditional grants similar in nature to Urban Transportation Financial Assistance grants. Conditional grants can be defined as grants that impose on the recipient a duty to use the monies for the purposes specified in the grant agreement.

It is generally agreed that the department or agency that disburses a conditional grant is responsible for obtaining reasonable assurance that the recipient spends the grant monies received for the purposes specified. What assurance is considered reasonable and how such assurance is obtained depends on the nature and purpose of the grant and is largely at the discretion of the disbursing entity. While some entities prefer physical verification, follow-up evaluation or audits by their own officials, many choose to rely to some extent on information supplied by the grant recipient, usually attested to by an independent and qualified auditor.

In the view of the Auditor General, this latter method of gaining assurance is appropriate in most circumstances, provided that the auditor is independent and qualified and that the audit is conducted in accordance with recognized auditing standards.

In the opinion of the Auditor General, the most appropriate auditing standards to which auditors should adhere when expressing an opinion on a grant recipient's compliance with the conditions of a grant agreement are to be found in section 5815 of the Canadian Institute of Chartered Accountants (CICA) Handbook. This section deals with reports on compliance with contractual agreements. In this regard, it is important to note that the requisite assurance can only be obtained from a positive opinion, and not from a negative opinion. The applicable standard states that "when engaged to express an opinion as to the (grant recipient's) compliance with particular accounting and financial reporting requirements of a (grant) agreement, the auditor should comply with the general and examination standards (of generally accepted auditing standards)."

An appropriate form of opinion would be:

AUDITOR'S REPORT

To the Department of .....

I have made an examination with respect to reporting on Grant Recipient's compliance with the accounting and financial reporting matters of Sections ... to ... inclusive of the grant agreement dated .............., 19.. with The Department of ........... . My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, Grant Recipient was in compliance with the accounting and financial reporting matters of Sections ... to ... inclusive of the grant agreement dated ..............., 19.. with the Department of ................ as at ......................, 19...

City (signed) ..............................
Date AUDITOR

In addition to an opinion on compliance under CICA Handbook section 5815, it may also be necessary, in appropriate circumstances, to express an opinion as to whether the financial information is presented fairly in accordance with the basis of accounting described or referred to and significant interpretations, if any, of the grant agreement (CICA Handbook 5805).

*Recommendation: (No. 5)*

*It is recommended that when recipients of conditional grants are required to provide assurance to the Province in the form of an audited report that the grants they have received were spent in compliance with the conditions of the grant agreement, the auditors examination and report should be in accordance with section 5815 and, where necessary, section 5805 of the Canadian Institute of Chartered Accountants Handbook.*

### 2.2.10 EMPLOYER PENSION CONTRIBUTIONS

Throughout 1982-83, the Treasury Department continued the practice of terminating employer contributions at the same time that the employees ceased making contributions, under all the pension plans it administers. In some circumstances, this practice is contrary to the governing legislation.

The Public Service Pension Act and Public Service Management Pension Act both provide for employee contributions to cease when the employee has accumulated thirty five years of pensionable service, or, upon attaining retirement age. However, these Acts do not authorize employer contributions to cease in these circumstances if the employee continues to be employed under the Public Service Act. Similarly, discontinuing employer contributions after an employee has accumulated a specified period of pensionable service but does not retire, is not authorized by either the Local Authorities Pension Act or the MLA Pension Act.

In his 1981-82 annual report (subsection 2.3.6), the Auditor General commented on the above practice and recommended that the Treasury Department consider seeking legislative amendments to authorize the discontinuance of employer contributions when employee contributions cease, or alternatively, comply with the provisions of the existing Acts and Regulations as they relate to employer contributions.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer responded to the Auditor General's recommendation by acknowledging that the legislation requires clarification. He indicated that the matter will be addressed when amendments to pension legislation are next considered.

The Auditor General acknowledges that the intention from the beginning may have been for pension plan administrators to regard individual employer and employee contributions as a total contribution, and that this has dictated past practice. Nevertheless, it is clear that this intention is not embodied in the pension plan Acts and Regulations. Since the Treasury Department has continued the practice of discontinuing employer pension contributions in certain circumstances without legislative authority, the Auditor General's recommendation is repeated.

*Recommendation: (No. 6)* *(1981-82: No. 9)*

*It is recommended that if compliance with existing provisions of the Pension Plan Acts and Regulations as they relate to employers' contributions is not considered desirable, Treasury Department seek immediate amendments to those Acts or Regulations to provide for the cessation of employer contributions when employee contributions cease.*

## 2.2.11 GOVERNMENT HOUSE FOUNDATION

In his 1981-82 annual report (subsection 2.3.8), the Auditor General noted that the Government House Foundation had mistakenly sold a painting that it did not own. It was recommended that procedures be established requiring the ownership of art works to be checked before they are disposed of and periodic physical verification and reconciliations of art works with the record of art works owned.

The annual audit for the year ended March 31, 1983, revealed that adequate procedures have been established, and accordingly, the recommendation is not repeated in this report.

## 2.2.12 HEALTH CARE INSURANCE FUND – UNAUTHORIZED TRANSACTIONS

In his 1981-82 annual report (subsection 2.3.9), the Auditor General explained how the Health Care Insurance Fund had paid and received several million dollars of public money without statutory authority. The transactions involved were described as falling into three categories and resulted in three reservations to the Auditor General's report on the Fund's 1981-82 financial statements. The nature of these transactions and the action taken since in relation thereto are as follows:

### Payments under Reciprocal Agreements

During the year ended March 31, 1982, the Fund paid $5,246,760 to Alberta hospitals to cover medical costs of patients insured under hospitalization plans of other Canadian provinces and territories. These payments and subsequent reimbursements were pursuant to reciprocal agreements that became effective on October 1, 1981, and that allowed payments from the Fund to be recovered from the other provinces and territories. The Alberta Health Care Insurance Act, however, did not provide the necessary authority for these payments, or reimbursements. For this reason, the Auditor General called attention to the unauthorized nature of these transactions in his 1981-82 annual report and in his report on the Fund's 1981-82 financial statements.

The Auditor General recommended that the Act be amended to allow the Fund to make recoverable payments to Alberta hospitals under reciprocal agreements with Canadian provinces and territories. The requisite amendment was passed in 1983, and because it had retroactive effect, the previous payments and reimbursements of this nature made by the Fund were validated.

### Sessional Payments to Physicians Providing Services to the Department of Social Services and Community Health

During the year ended March 31, 1982, the Fund paid $3,013,818 in the form of sessional payments to physicians who provided services to the Department of Social Services and Community Health. These payments and subsequent reimbursements by the latter Department were pursuant to an understanding between the Departments of Hospitals and Medical Care and Social Services and Community Health. Because portions of these payments did not constitute "benefits" as defined by the Act, and because there was no statutory authority for the reimbursement of such payments, the Auditor General called attention to the unauthorized nature of these transactions in his 1981-82 annual report and in his report on the Fund's 1981-82 financial statements.

The Auditor General recommended that the Act be amended to allow the Fund to make recoverable payments to physicians providing services to the Department of Social Services and Community Health. The requisite amendment was passed in 1983, and because it had retroactive effect, the previous payments and reimbursements of this nature were validated.

## Payments on Behalf of Injured Workers Coming Under the Workers' Compensation Act

The Workers' Compensation Amendment Act, 1981 and its consequential amendment to the Alberta Health Care Insurance Act transferred from The Workers' Compensation Board to the Health Care Insurance Fund, with effect from January 1, 1982, responsibility for paying benefits for basic health services for injured workers coming under the Workers' Compensation Act. As a result of this transfer, the Fund's expenditures increased by $2,304,324 during the three months ended March 31, 1982. This expenditure included approximately $166,000 paid on behalf of injured workers who were not registered with the Alberta Health Care Insurance Plan at the time the treatment was provided. In addition, certain benefit limits were not adhered to and undetermined amounts were paid in excess of the authorized fee schedule. These payments contravened the Act and its regulations and were, therefore, without statutory authority.

During 1981-82 there was a certain amount of confusion regarding the transfer of responsibility from The Workers' Compensation Board to the Fund. For a time it was intended that the Board would reimburse the Fund for all expenditures on behalf of workers coming under the Workers' Compensation Act. Later, it was agreed that the legislation did not provide for such reimbursement and, therefore, payments were reported as expenditures by the Fund. Meanwhile, payments were made consistent with the assessment procedures and fee schedules in use by the Board prior to January 1, 1982, and resulted in payments in excess of authorized limits and on behalf of workers who were not registered.

The Auditor General recommended that the policy relating to the funding sources for payments of this nature be clarified, and that the legislation be amended to provide the appropriate authority.

The Health Care Statutes Amendment Act, 1983, which was assented to on June 6, 1983, amended the Workers' Compensation Act and returned to The Workers' Compensation Board, retroactive to January 1, 1982, responsibility for expenditures on behalf of injured workers. It also provided authority for an arrangement to be made by the Board with the Minister of Hospitals and Medical Care respecting the payment of claims for medical aid provided to injured workers whereby claims could be paid by the Fund which would subsequently be reimbursed by the Board. During the period from January 1, 1982 to March 31, 1983 the Fund paid $26,599,733 on behalf of injured workers coming under the Workers' Compensation Act. This amount is shown as an amount receivable from the Board in the financial statements of the Fund to March 31, 1983.

A formal arrangement, as required by the Act, between the Board and the Minister had not been completed at the time the financial statements of the Fund were finalized and therefore a reservation was included in the auditor's report with respect to the aforementioned receivable.

### *Recommendation: (No. 7)*

*It is recommended that an arrangement be finalized between The Workers' Compensation Board and the Minister of Hospitals and Medical Care, as provided by section 82.1 of the Workers' Compensation Act, relating to the payment by and subsequent reimbursement to the Health Care Insurance Fund of claims for medical aid provided to workers coming under the Workers' Compensation Act.*

### 2.2.13 INTEREST EARNED ON GRANT MONIES

**The Province lacks guidelines for determining the treatment of interest earned by grant recipients on unspent grant money.**

The Audit Office has observed that from time to time, conditional grants are paid by the Province to municipalities and other recipients before the recipients need the money. In these circumstances, the recipients either hold the money mixed together with their own monies, or invest the money in interest bearing accounts pending it being used for the purposes designated in the grant agreement. Most grant agreements are silent as to how such interest should be treated, or indeed, whether such circumstances should be allowed to occur.

In some instances, departments and agencies avoid uncertainty by holding grant monies in the Consolidated Cash Investment Trust Fund until the recipient needs the money for the purposes designated in the grant agreement. When this is not done, however, recipients are often allowed to retain the interest they earn on grant monies providing that it is spent for the same purposes as the original grant; in other circumstances, the recipients are allowed to spend the interest as they wish. In a few cases, the Province recovers the interest from the grant recipient.

These uncertainties and inconsistencies could be avoided if the grant agreements (where timing conditions are involved) specified the circumstances in which grant monies could be disbursed before they were needed, and the treatment of any interest earned by recipients on such monies. Since interest earned by recipients on grant monies received before it is needed is, in effect, interest income foregone by the Province, it would also be helpful if the Treasury Board issued guidelines covering early payments of conditional grants.

*Recommendation: (No. 8)*

*It is recommended that the Treasury Board issue guidelines covering the circumstances in which conditional grants may be paid to recipients before the recipients need to spend the money, together with the disposition of any interest earned on such monies.*

*Recommendation: (No. 9)*

*It is recommended that departments and Provincial agencies that disburse conditional grants ensure that the grant agreements specify if and in what circumstances grants may be paid to recipients before the recipients need to spend the money. Where prior payment is permitted, the grant agreement should stipulate how the money should be held and the disposition of any interest earned thereon. Chapter 6 of the Treasury Department's Manual of Financial Administration should be amended to reflect these requirements.*

### 2.2.14 INVESTMENT OF SURPLUS FUNDS

Current legislation prevents some Provincial agencies obtaining more favourable rates of return when investing surplus funds.

In his 1979-80 annual report (subsection 2.2.4), the Auditor General commented on the need for some Provincial agencies to improve their procedures and strategies for investing surplus funds. The Provincial agencies concerned were certain public colleges, universities and hospitals that are exempt from the banking arrangements specified by the Financial Administration Act. Some of these agencies have insufficient staff to devote the time and attention required to manage temporarily surplus funds in a manner that maximizes investment yield while maintaining the liquid funds needed for day to day operations. Accordingly, the Auditor General recommended that, where appropriate, Provincial agencies utilize the services of the Province's Consolidated Cash Investment Trust Fund (CCITF) when investing funds that are surplus to immediate requirements.

The CCITF is administered by the Treasury Department and pools the funds of a number of approved depositors in order to maximize the investment yield available to each depositor, while at the same time providing daily liquidity. Individual depositors thus benefit from the investment potential of a large pooled fund and are relieved of much of the need for day to day cash management.

When responding to the Auditor General's recommendation the Provincial Treasurer stated that there is merit, from a pure investment and cash management viewpoint, in the participation of Provincial agencies in the CCITF. He further stated, however, that such participation can only be considered in the context of legislative authority and of local considerations which may be a factor in the decision by a Provincial agency to utilize the services of the CCITF.

The Auditor General acknowledges that, because of their autonomy, the Boards of colleges, universities and hospitals must decide on whether or not to participate in the CCITF. As regards legislative authority, however, it may be desirable to remove the current restrictions that prevent some Provincial agencies participating in the CCITF. For example the Colleges Act and the Technical Institutes Act state that the Boards of colleges and institutes that operate pursuant to those Acts shall keep their funds in chartered banks, treasury branches, trust companies or credit unions. This effectively precludes these colleges and institutes from participating in the CCITF.

As at June 30, 1983, the balance sheets of the ten public colleges and the three technical institutes showed that a total of over $70 million in cash was on hand, with more than $22 million of that total held in the form of bank accounts generating minimal interest revenue. It appears that these Provincial agencies could increase significantly their interest earnings, and at the same time decrease administrative costs and effort, by participating in the CCITF.

*Recommendation: (No. 10)*

*It is recommended that, where appropriate, Provincial agencies be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs.*

### 2.2.15 LAND PURCHASE FUND – ULTRA VIRES TRANSACTION

A mortgage entered into by the Land Purchase Fund during 1981-82, without statutory authority, was allowed to remain outstanding throughout 1982-83. In addition, the 1982-83 financial statements of the Land Purchase Fund do not disclose that the mortgage is ultra vires.

The Land Purchase Fund was established by the Goverment Land Purchases Act and is administered by the Provincial Treasurer. Its purpose is to acquire land on behalf of the Crown to meet future requirements of departments and other divisions of the Alberta public service.

Although the Act empowers the Fund to borrow money from time to time from the Province's General Revenue Fund, it does not specifically empower the Fund to borrow from elsewhere, or to pledge its assets to secure such borrowing. For this reason, the 1981-82 transaction whereby the Fund acquired a parcel of land for a consideration consisting partly of cash and partly of a loan from the vendor secured by a mortgage on the land, was ultra vires the provisions of the Government Land Purchases Act.

In his 1981-82 annual report (subsection 2.3.10), the Auditor General referred to the ultra vires nature of the transaction and recommended either that the borrowing be repaid in full, or that a series of steps be taken to transfer the land and the mortgage to the General Revenue Fund.

At the time that the 1981-82 financial statements of the Land Purchase Fund were prepared, the Treasury Department acknowledged the ultra vires nature of the transaction by disclosing in a note to the Fund's financial statements that the transaction exceeded the powers provided in the Act. Subsequently, however, when responding formally to the Auditor General's annual report recommendation, the Provincial Treasurer stated that an opinion had been obtained from the Department of the Attorney General indicating that the mortgage was intra vires the Government Land Purchases Act. He also stated that as the original intention was for the land to be purchased and held by the Land Purchase Fund, the Government does not propose to transfer it to the General Revenue Fund.

The land and the mortgage remained with the Land Purchase Fund throughout 1982-83 and are shown on its balance sheet at March 31, 1983. The 1982-83 financial statements, however, do not disclose that the transaction exceeded the powers provided in the Act. Instead, a note to the financial statements states that based on an opinion obtained from the Department of the Attorney General, the transaction is intra vires the Act.

The comments and recommendation contained in the Auditor General's 1981-82 annual report were supported by an opinion obtained by the Auditor General from legal counsel outside of the Government. After the Department of the Attorney General issued the opinion referred to above, the Auditor General again sought the advice of legal counsel who confirmed that, in his opinion, the mortgage transaction is ultra vires the Goverment Land Purchases Act.

The Auditor General qualified his report on the financial statements of the Land Purchase Fund for the year ended March 31, 1983, by stating that in his opinion, and based on advice obtained from legal counsel, the mortgage transaction on the Fund's balance sheet is ultra vires the Act, and should be so disclosed.

In view of the above, the recommendation contained in the Auditor General's 1981-82 annual report is repeated herein, though in a modified form.

*Recommendation: (No.11)* *(1981-82: No. 16)*

*It is recommended that the Treasury Department seek amendments to the Government Land Purchases Act that will remove any doubt as to whether the Land Purchase Fund has legislative authority to borrow other than by advances from the General Revenue Fund and to mortgage land held by the Fund.*

## 2.2.16 METIS POPULATION BETTERMENT TRUST ACCOUNT

The Boards of settlement associations formed under The Metis Betterment Act are improperly constituted, and honoraria are paid to Board Members in excess of amounts prescribed in legislation.

The Metis Betterment Act, which is administered by the Minister of Municipal Affairs, authorizes the formation of settlement associations composed of members of the Metis population of the Province. Section 4(3) of the Act states that settlement associations shall have local boards consisting of a chairman, being the local supervisor of the area appointed by the Province, and four members of the settlement association. The Act also states that two members of local boards shall be appointed by the Minister, and the remaining two members shall be elected by members of the settlement association by secret ballot.

During recent annual audits of the Metis Population Betterment Trust Account, it was observed that settlement associations were not complying with section 4 of The Metis Betterment Act in that all five members of local boards were elected by secret ballot. It was also observed that Board Members were paid honoraria for attending board meetings in excess of the $3.00 per day allowed by the regulations issued pursuant to the Act.

These matters were reported to the Department at the conclusion of each annual audit. In response thereto, the Department has indicated that the problems relating to the composition of settlement association boards and honoraria paid to members will be resolved following settlement of litigation currently before the courts.

*Recommendation: (No. 12)*

*It is recommended that the Minister of Municipal Affairs take action to resolve the long-standing problems relating to non-compliance with the provisions of The Metis Betterment Act (and regulations issued pursuant thereto) governing the appointment of members to local boards of settlement associations and payment of honoraria to board members.*

## 2.2.17 NON-COMPLIANCE WITH THE PUBLIC WORKS ACT

The Departments of the Environment and Transportation did not comply with the Public Works Act when administering public works contracts.

Section 12(1) of the Public Works Act states that:

> "No sum of money shall be paid to a contractor and, unless the Minister otherwise authorizes, no work shall be commenced on a contract until

(a) the contract has been signed by the parties named in it, and

(b) the required security and proof of insurance has been given."

The 1982-83 annual audit of the Department of the Environment revealed that work had commenced on February 15, 1983 on a public works project administered by the Department, but that the contract was not signed until March 29, 1983. In this instance, no payments were made until after the contract was signed.

The 1982-83 annual audit of the Department of Transportation revealed that work was allowed to commence on a public works project administered by the Department even though a contract had not been signed and the "contractor" was unable to comply with the security requirements. In this instance, work progressed far enough for the contractor to apply for and obtain a progress payment of $30,000 before the extent of the problem was recognized and the "contractor" was removed from the project. The Department subsequently entered into a contract with another contractor for the completion of the work.

In both of the above instances, the Audit Office was unable to find evidence that the respective Ministers had authorized work to commence before the contract was signed or before the security arrangements were settled.

*Recommendation: (No. 13)*

*It is recommended that the Departments of the Environment and Transportation take steps to ensure that, in future, they comply with section 12(1) of the Public Works Act when administering public works contracts.*

## 2.2.18 PROTECTING PUBLIC FUNDS AGAINST THEFT

In his 1981-82 annual report (subsection 2.3.12), the Auditor General commented on the number of robberies that had occurred that year. He recommended that management of departments and Provincial agencies should review and, where necessary, strengthen their security arrangements for safeguarding public monies against theft, particularly during normal working hours and when such monies are in transit.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer responded to the Auditor General's recommendation as follows:

> "Armoured car service between departments and banking institutions has been greatly extended during 1982-83. The number of locations receiving service in Edmonton and Calgary has risen by 12 and service was extended into Red Deer at 4 locations. Under the Risk Management program, areas with the potential for the loss of public funds are identified and analyzed. Loss control measures are implemented to reduce or eliminate potentially severe losses. Departments have been encouraged to make twice daily deposits during peak periods and to use bank facilities that allow for deposit during non-banking hours where required. Efforts to safeguard public monies will continue and changes in existing procedures will be made as required to meet changing circumstances. Treasury also has insurance coverage and fidelity bonds to indemnify the Government for losses."

In view of the action taken, the recommendation is not repeated in this report.

### 2.2.19 THEFT OF FUNDS AT PUBLIC COLLEGES

Non-adherence to management controls lead indirectly to thefts by employees at Keyano College and Mount Royal College.

In his 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.4.8), the Auditor General commented on weaknesses in internal control systems at the Province's ten public colleges. Among the problems noted was inadequate segregation of incompatible functions. While it was acknowledged that proper segregation of duties was virtually unattainable in some situations, due to the limited number of clerical staff involved, it was noted that potential existed for fraud unless compensating management controls were exercised.

These internal control weaknesses and the necessary compensating controls were discussed each year during the annual audits on a situation-by-situation basis. Even so, during 1982 and 1983, two thefts of funds occurred because compensating controls were suspended or relaxed.

#### Keyano College – Fort McMurray

During the audit for the year ended June 30, 1982, it was observed that the College was experiencing internal control difficulties, partly because of staff turnover and vacancies. In particular, control weaknesses were noted in the Physical Plant Department caused by poor segregation of duties, issuing purchase orders after the goods were received, and non-adherance to prescribed tendering and purchasing procedures. College Management acknowledged these weaknesses, but stated that compensating control was exercised by senior level review of all purchase and expenditure documentation and monthly operating reports.

On March 3, 1983, College Management received allegations that thefts had occurred in the College's Physical Plant Department. Management investigated the allegations and by March 9, 1983 had acquired sufficient evidence to seek the assistance of the Royal Canadian Mounted Police and the Audit Office.

Investigations by the Audit Office revealed that the Director of Physical Plant and another employee of the College had used College purchase orders to obtain goods for their own use. In addition, the Director had approved invoices payable to a local business even though it could not be proved that the College had received most of the goods and services invoiced. It subsequently transpired that the local business was owned personally by the Director.

The College had not detected the fraudulent payments because a key compensating control, the review of expenditure reports by heads of budget units, had been suspended by Management a few months earlier in an effort to expedite paper flow.

The Director of Physical Plant was released by the College and was later convicted of theft. Restitution in the amount of approximately $60,000 is to be made to the College by the ex-Director. Moreover, the College is adequately insured and can recover all identified and proven losses.

#### Mount Royal College – Calgary

A theft of funds also occurred at Mount Royal College during the year ended June 30, 1983. The theft was facilitated by a temporary relaxation of secondary controls that were designed to compensate for inadequate segregation of duties.

The loss was approximately $6,400 and resulted from the theft by a catering supervisor of a cash float and catering receipts for November and December 1982.

During previous audits, the Audit Office had commented on weaknesses in the College's cash handling procedures, and College Management had acknowledged that the segregation of clerical duties in the food services area was inadequate. It was believed, however, that the regular review of all catering revenue and bank deposits by the Director of Food Services was a satisfactory compensating control. During the period when the theft occurred, the Director of Food Services was on leave of absence and the review function was not re-assigned.

The College has commenced legal action for recovery of its losses but, to date, has not recovered any missing funds.

In view of the two occurrences outlined above, the recommendation first made in the Auditor General's 1979-80 annual report is repeated herein:

*Recommendation: (No. 14)* *(1979-80: No. 23)*

*It is recommended that the Public Colleges ensure that adequate time and resources are directed to the establishment and maintenance of accounting records and a comprehensive system of internal control and that management continue to monitor areas where incompatible duties are not properly segregated.*

Although the two situations referred to above did not result in significant losses of public funds, they illustrate the dangers inherent in allowing financial control to relax or otherwise become inoperative. This applies to all Provincial entities and is particularly important during difficult economic times when efforts are made to restrain the expenditure of public funds and to operate in a more economical manner. When economies of this nature are considered, great care should be taken to maintain adequate controls in order that the vulnerability of public funds to theft and misuse is not increased, and that the accuracy of financial information for both management and the Legislative Assembly is not jeopardized.

*Recommendation: (No. 15)*

*It is recommended that management of all departments, funds and Provincial agencies exercise care when reducing the resources allocated to financial administration, to ensure that adequate financial control is maintained in order that the vulnerability of public funds to theft and misuse is not increased, and that the accuracy of financial information for both management and the Legislative Assembly is not jeopardized.*

## 2.3 SYSTEMS WEAKNESSES AND DEFICIENCIES (Reported pursuant to subsections 19(2)(d) and (e) of the Auditor General Act.)

### 2.3.1 DEPARTMENT OF HOSPITALS AND MEDICAL CARE – GRANT PAYMENT IRREGULARITIES

During 1982-83, irregularities occurred in the procedures used by the Department of Hospitals and Medical Care to process grants for hospitals.

In his 1981-82 annual report (subsection 2.4.2), the Auditor General described the circumstances in which the Department duplicated monthly operating grants to two hospitals. The duplicated payments accumulated to $9,483,319 before eventually the error was discovered and the Department was re-imbursed by the hospitals.

Although the Auditor General recommended that the Department strengthen its procedures for processing grants for hospitals, the following irregularities were noted during the 1982-83 annual audit:

— The Department paid a grant to cover the University of Alberta Hospitals' 1982 operating deficit and nurses' retroactive pay increases, based on an estimate provided by the Hospitals. Although the correct amount of the grant has still to be agreed, it appears to have been overpaid by in excess of $400,000. The Hospitals have since repaid the amount that they believe was overpaid.

— Grants paid to the University of Alberta Hospitals to March 31, 1983, to cover commissioning costs for the Walter C. Mackenzie Health Sciences Centre, exceeded the amount required to that date by more than $1,000,000.

— The Department duplicated payments of approximately $26,000 to the University of Alberta Hospitals. The amount involved, which was to cover retroactive pay increases for nurses at the Mewburn Veterans Centre, was included in a payment with the operating deficit grant, then paid again with a separate cheque.

— The Department re-imbursed the Foothills Provincial Hospital twice for its 1981 bad debts claim. The claim was for an amount in excess of $185.000 and was first paid as part of a payment covering the Hospital's operating deficit, then again later as a separate payment.

— The Department duplicated grant payments to seven major hospitals with respect to costs relating to medical interns and residents. The mistake was discovered promptly, however, and the cheques were returned or repayment was made within a few days.

In all of the above instances, the grants were either repaid to the Department, or were or will be adjusted against future payments to the hospitals. Nevertheless, where monies were paid from the General Revenue Fund before they should have been, they were unavailable for investment and investment income was foregone.

The above irregularities indicate that the previously reported weaknesses in the Department's grant payment processing system persisted throughout 1982-83. Accordingly, the Auditor General's recommendation is repeated.

*Recommendation: (No. 16)* *(1981-82: No. 22)*

*It is recommended that the Department of Hospitals and Medical Care strengthen its procedures to avoid irregularities when processing grants to hospitals.*

### 2.3.2 DEPARTMENT OF THE SOLICITOR GENERAL – NEW CORRECTIONAL CENTRES

In his 1981-82 annual report (subsection 2.4.3), the Auditor General commented on numerous weaknesses and deficiencies in the accounting records and financial control systems of two new correctional centres that became operational in early 1981. Although considerable progress had been made towards eliminating these problems by the time that the 1981-82 annual report was finalized, the Auditor General recommended that in future, the Department ensure that adequate accounting records and financial controls are established when new correctional centres or other institutions are opened.

No new centres or institutions were opened during 1982-83. It was observed, however, that staff of the Department's Finance Planning and Advisory Services Division now review regularly the accounting records and financial control systems of the Province's correctional centres. Furthermore, the Department has stated that its Finance Division will be fully involved in planning and implementing the accounting procedures and controls for all new correctional centres, and also, that the Finance Planning and Advisory Services Division will review the systems and controls at new centres within six months of them opening.

The Auditor General is satisfied that the Department has taken reasonable action to prevent a recurrence of the problems noted in his 1981-82 annual report, and accordingly, the recommendation is not repeated in this report.

### 2.3.3 DEVELOPMENT OF ELECTRONIC DATA PROCESSING SYSTEMS

A number of departments and Provincial agencies have in the past encountered problems when developing new EDP systems. Responsibility for developing EDP systems lies with the senior management of each department and Provincial agency. Treasury Board Directive 07/81, 'Procedures for the Management of Electronic Data Processing', while recognizing the location of this responsibility, requires all departments and Provincial agencies to prepare and maintain an EDP development plan. The Office of the Controller reviews plans for compliance with various directives and standards.

In his 1981-82 annual report (subsection 2.4.4), the Auditor General recommended that the review procedures carried out by the Office of the Controller, for compliance with Treasury Board Directive 07/81, be extended to include determining whether:

- EDP development plans contain sufficient detail,
- EDP development plans are supported by an adequate rationale, and
- senior managers are appropriately involved in both the preparation and the implementation of EDP development plans for which they are responsible.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer responded to the Auditor General's recommendation as follows:

> "A review of operational and strategic EDP plans by the Budget Bureau is an integral component of the annual expenditure budget review and decision-making process. The Bureau's programme analysis includes a review of EDP plans and requested EDP expenditure authority, along with all the other resource requirements for programme service delivery.
>
> The Office of the Controller, as part of its control evaluations activities, will review the involvement of senior managers in the development process."

The Audit Office reviewed the work of the Office of the Controller's Financial Control Standards Division in monitoring the involvement of senior management in the preparation and implementation of EDP development plans, and has itself conducted a review of those plans. These reviews revealed that the quality of EDP planning in departments and Provincial agencies varies between excellent and poor. In most cases, there still appears to be a need for greater senior management involvement when preparing and implementing EDP development plans.

The major criterion for preparing a good EDP development plan is recognizing that EDP planning is an integral part of overall planning intended to achieve program objectives. The EDP development plan of the Department of Energy and Natural Resources puts this very succinctly:

> "Departmental objectives have been established for the purpose of identifying automated information systems demands and ensuring that scarce technical resources are used to meet programme priorities."

Senior manager involvement is thus essential, as it is senior management that is entrusted with the attainment of program objectives.

When senior management has appropriate involvement in preparing EDP development plans, the plans will convey senior management's intentions as to how EDP resources are to be acquired and utilized to achieve program objectives. Indeed, it is believed that proper EDP planning is essential if EDP resources, including manpower as well as hardware and software, are to be rationally acquired and logically allocated.

Lack of senior management involvement is invariably because senior management fails to either:

- recognize the potential and limitations for the use of EDP resources in attaining program objectives, or,
- recognize the need for an adequate and orderly plan of implementation for EDP resources.

In order to encourage the continuing general improvement in the quality of EDP development plans, the Auditor General recommends the following:

*Recommendation: (No. 17)*

*It is recommended that senior management increase its involvement in the preparation and implementation of EDP development plans to determine whether:*

- *the plans describe in appropriate detail the proposed development and implementation activities,*
- *evidence is available to support the rationale behind the plans, and*
- *intended benefits are achieved.*

While it is recognized that a good EDP plan may not in itself lead to attaining all of the objectives of a particular program, continuing senior management involvement in implementing and updating EDP development plans is essential to promoting the attainment of program objectives.

### 2.3.4 EXPENDITURES IN EXCESS OF AUTHORIZED LIMITS

In his 1981-82 annual report (subsection 2.4.5), the Auditor General identified five Government departments that had overspent the funds provided for them by the Legislative Assembly for the 1981-82 fiscal year. By overspending supply votes of the 1981-82 Appropriation Act without obtaining special warrants, these departments had not adhered to either the legislation or the applicable Treasury Board directives, thereby weakening the legislative and financial controls inherent in the budget process.

The Auditor General recommended that all Government Departments maintain control systems capable of preventing annual expenditures from exceeding the limits imposed by annual supply votes and special warrants. He also recommended that the Office of the Controller and the Budget Bureau institute more effective procedures to ensure that departments comply with Treasury Board directives relating to expenditure controls.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer replied to the Auditor General's recommendations as follows:

> "The Government agrees that departments should establish procedures to ensure annual expenditures do not exceed authorized limits. As part of its control evaluations activities, the Office of the Controller reviews the procedures that departments have in place to ensure that annual expenditures do not exceed authorized limits. Where necessary departments are requested to improve or establish such procedures.
>
> Procedures are in place in Treasury which ensure that cash payments to the end of the fiscal year do not exceed authorized expenditure limits. However, these procedures cannot prevent liabilities being incurred which must be reported in the Public Accounts and may

> cause authorized expenditure limits to be exceeded. Therefore, it is essential that departments monitor their expenditures against authorized limits."

In 1980-81, ten departments overspent at least one of their supply votes. In 1981-82, this number had reduced to five. In 1982-83 only one department overspent a supply vote. This was the Department of Housing which overspent its Vote 4 by $12,440,236, mainly because the events explained in subsection 2.4.3 of this report unexpectedly increased the annual deficit of the Alberta Housing Corporation which is charged against this vote.

In view of the Provincial Treasurer's response, and the observed improvement in the control of vote expenditures, the Auditor General's recommendations are not repeated in this report.

### 2.3.5 PAYROLL SYSTEMS – OVERPAYMENTS OF OVERTIME

The Master Agreement between the Province of Alberta and the Alberta Union of Provincial Employees states that overtime shall be paid based on the rates of pay that prevail at the time when the overtime is worked. Following retroactive pay settlements in 1978 and 1981, however, several departments overpaid their employees by paying overtime worked before the effective settlement date, using post-settlement rates of pay.

In his 1978-79 annual report, and again in his 1981-82 annual report (subsection 2.4.7), the Auditor General recommended action to prevent similar overpayments in future.

Following a retroactive pay settlement in 1982, the Audit Office examined a cross-government sample of payments for overtime worked immediately prior to the settlement date. All payments examined were found to have been calculated correctly using the rates in effect prior to the settlement date. Since this matter appears to have been resolved satisfactorily, the recommendation is not repeated in this report.

### 2.3.6 REVISED STATUTES OF ALBERTA 1980

In his 1981-82 annual report (subsection 2.4.9), the Auditor General drew attention to problems that arose because normal purchasing procedures were ignored when the Revised Statutes of Alberta were ordered and printed and the cost was significantly more than had been anticipated. Although it was acknowledged that this was an isolated incident, the Auditor General recommended stricter compliance with prescribed purchasing procedures when dealing with special purpose contracts of this nature.

Since no similar problems were observed during 1982-83, the recommendation is not repeated in this report.

### 2.3.7 SALARY PAYROLL – INADEQUATE DOCUMENTATION

Procedures used by many Government departments to ensure accurate payment of salaries, as well as the records maintained to support those payments, continue to be inadequate.

Staff salaries of all departmental employees are processed through the Province's central salary payroll system. Although the system is administered jointly by the Personnel Administration Office and the Office of the Controller, the departments that use the system are primarily responsible for the following aspects of the system:

- preparing and submitting accurate and authorized payroll documentation for processing by the system,
- ensuring that employees are paid in accordance with the prevailing regulations, agreements and terms of employment,
- ensuring that processed salary information (including cheques) is accurate and complete, and
- maintaining personnel files and other records to support salary payments and deductions.

Following departmental audits for the 1979-80 fiscal year, the Auditor General reported a high incidence of deficiencies in the records maintained by Government departments to support salary payments and deductions. In his 1979-80 annual report, the Auditor General recommended that, where applicable, departments and Provincial agencies improve the quality of the records they maintain to calculate, authorize and support payments processed by the Province's central salary payroll system.

Annual departmental audits for 1980-81, 1981-82 and 1982-83 revealed a steady improvement in almost all departments. For example, the previously reported problems concerning pension contribution deductions and inadequate user manuals have now been eliminated. Furthermore, the incidence of problems such as incomplete documentation on personnel files to support withholdings and inaccurate vacation entitlement, casual illness and temporary absence records, has decreased significantly.

Nevertheless, the sample of salary transactions audited during 1982-83 revealed a number of departments where there are still problems in this area. In addition, a number of instances were observed where payments were made or where amounts were deducted from salary, without the requisite evidence of authority. For approximately twenty per cent of the transactions audited (forty two per cent in 1981-82), the records examined did not comply with the applicable guidelines contained in the Treasury Department's Manual of Financial Administration. Despite this improvement, it is considered that the incidence of errors and/or record inadequacies is still excessive.

*Recommendation: (No. 18)* *(1981-82: No. 32)*

*It is recommended that departments and Provincial agencies that use the central salary payroll system intensify their efforts to improve the accuracy and completeness of the records they maintain to support the information processed by the system. This should include ensuring that the requisite approvals are obtained for all payments, and deductions therefrom, and that records and procedures comply with Chapter 7 of the Treasury Department's Manual of Financial Administration.*

### 2.3.8 SECURITY OVER CENTRALLY STORED COMPUTER DATA AND PROGRAMS

In his 1979-80, 1980-81 and 1981-82 annual reports, the Auditor General commented on the need to employ strong security measures, where appropriate, to protect the Province of Alberta's electronically stored data and programs. These comments were directed primarily at those departments and Provincial agencies that utilize the services of the central electronic data processing and storage facility operated by the Department of Public Works, Supply and Services.

When considering computer security, it is important that all the parties involved recognize their respective responsibilities. In circumstances where many departments and agencies use a central processing and storage facility, responsibilities should be as follows:

- The central facility should be responsible for providing a range of facilities and devices for protecting the data and programs it processes and stores.
- The departments and agencies that use the central facility should be responsible for evaluating the confidentiality and sensitivity of their centrally stored data and programs, selecting the appropriate security facilities and devices, and ensuring that such facilities and devices are used.

The Auditor General's comments in this regard were prompted by indications received from time to time during annual audits that management of many departments and agencies did not recognize the responsibility they have for their centrally stored computer data and programs. During 1982-83, however, an Audit Office review revealed that most departments and agencies that use the central facility have evaluated their computer security requirements. Based on these evaluations, they have selected what they believe to be the most appropriate security systems to protect their data and programs. In addition, the Office of the Controller, in discharging its responsibility for the adequacy of most of the Province's financial systems, has begun reviewing regularly the appropriateness of security standards (and adherence thereto) adopted by departments and agencies for both new and existing computer systems.

Since the Auditor General is satisfied that reasonable action has been, and is being, taken in response to his previous recommendations for improved security over centrally stored computer data and programs, the recommendations are not repeated in this report.

### 2.3.9 THE WORKERS' COMPENSATION BOARD – ASSESSMENT POLICIES

The Workers' Compensation Board lacks a formal policy for determining the way, and over what periods, class deficits should be recovered.

From assessments contributed by employers, the Board provides compensation including pensions and medical aid for permanently disabled workers and their dependents. For the purpose of setting assessment rates, employers are grouped into classes depending on the accident risks of the various industries involved. Assessments are set at rates that are designed to provide for annual class compensation payments, and to contribute to the recovery of any class deficits from previous years.

During a recent audit it was observed that, at present, assessment rates are set through an informal guideline that requires deficits to be recovered within ten years. No formal Board approved policy exists as to the period over which deficits are to be recovered or the way in which the deficits will be recovered during that period. It was also noted that, due to the way in which the deficits to be recovered are calculated each year under the present system, the period of recovery can extend beyond ten years.

A formal policy providing a way to recover class deficits is needed to provide assurance that the recommended assessment rates attempt to recover deficits in a manner that is acceptable to the Board. Recent increases in The Workers' Compensation Board's accumulated deficit, which at December 31, 1982 stood at $76,906,000, emphasize the urgent need for the establishment of such a policy.

*Recommendation: (No. 19)*

*It is recommended that The Workers' Compensation Board establish a formal policy governing the period over which deficits are to be recovered and the way in which class deficits should be recovered during that period.*

## 2.4 INAPPROPRIATE ACCOUNTING POLICIES AND INADEQUATE DISCLOSURES (Reported pursuant to subsection 19(3) of the Auditor General Act.)

### 2.4.1 ACCOUNTING FOR PROGRAM COSTS

The Province's accounting policies and reporting practices for fixed asset costs and other centrally incurred expenditures distort significantly the reporting of program costs in the public accounts.

The Province employs a program-based budgeting and reporting system for the General Revenue Fund. This means that annual expenditures are approved by and reported to the Legislative Assembly on a program-by-program basis. One advantage of this system should be that Members of the Legislative Assembly and the public can see how much public expenditure is approved and subsequently incurred on each major Government program. If, however, the annual costs reported are neither accurate nor complete, this advantage is lost and the figures may mislead.

In his last four annual reports, the Auditor General commented on the inappropriate and inconsistent methods used by the Province to account for certain costs associated with the occupation of premises and other centrally provided services. As a result of these methods, inconsistent and potentially misleading reporting occurs because some costs are charged to the programs that benefit from the services, while other costs are charged to the programs that procure or provide the services. These inconsistencies distort the reporting of, and thereby impair the value of, the program budgeting and reporting concept.

Another major distortion to the annual reporting of program costs is caused by the Province's policy for accounting for fixed assets purchased by the General Revenue Fund. Under this policy, the cost of fixed assets acquired is charged either to the program that benefits from using the assets, or to the program that procures the assets, during the fiscal year in which the assets are acquired. This means that the full capital cost of a fixed asset with a useful life of several years is charged to the program's costs in the year of acquisition, rather than the more logical practice of spreading the cost over the years when the benefits are derived.

The above comments have been related to the General Revenue Fund, though similar budgeting and reporting inconsistencies apply equally to many regulated funds, revolving funds and Provincial agencies. The financial statements of these entities do not reflect their full operating costs where, for example, all or some of the premises are owned or leased by the Province (General Revenue Fund) and the associated costs are not charged to the entity. Although in these situations, a note to the entity's financial statements indicates that the costs are omitted, the costs are not quantified and hence their effect on the operating results cannot be determined.

Accommodation and related costs, with a 1983-84 budget of $475 million, represent the most significant centrally provided service that is not charged to the programs or entities that utilize the service. Other centrally incurred costs that are similarly not charged in all cases are legal services, personnel administration, auditing, procurement, workers' compensation and various financial services such as investment, budgeting and banking services provided by the Treasury Department. The 1983-84 budget for these services amounts to approximately $85 million.

The aformentioned inconsistencies in the methods used to account for centrally provided program services seriously impair the usefulness of the reported costs. If the reported costs purport to be the program's costs, the reader is entitled to assume that they are all the costs of the program. If they are not, the reader may be misled, regardless of whether his or her interest is in the absolute figures, or in comparisons with prior years or similar programs in other jurisdictions.

For example, it is difficult to draw meaningful conclusions about the total or per pupil costs of an educational program if a significant portion of the costs is omitted. It is also difficult to draw meaningful comparisons from one fiscal year to the next when the figures for either year may contain significant non-recurring capital expenditures. Similarly, comparing the total or per capita costs for health, welfare or higher education in Alberta with those in other province's may be virtually impossible when the figures used (perhaps for both jurisdictions) are incomplete or distorted by uneven annual capital expenditures.

Another disadvantage caused by incomplete recording of program costs is that accountability is impaired. The concept of program budgeting and reporting involves program managers being accountable to senior management, and senior management being accountable to a minister and through the minister to the Legislative Assembly, for the resources consumed by the various programs. By assigning personal responsibility for resources, this accountability structure is designed to enhance the economy with which resources are acquired, and the efficiency with which they are utilized. Where accommodation, utilities, personnel, professional and other services used by a program are not budgeted and reported as part of that program, there is no direct incentive for the people who administer that program to use those services as frugally as would be the case if the resources had to be found from their own budgets. At present, most program managers are unaware of the costs incurred on their behalf for centrally provided services. If managers of user programs knew, and were accountable for, the costs of centrally provided services, they would be more likely to attempt to obtain better value for money.

The above comments should not be interpreted as suggesting that each Provincial entity or program should be responsible for providing or acquiring those services that are now provided and reported centrally. To do so would be to ignore the economies available from large scale procurement of goods and services, and the control and efficiency advantages of concentrating expertise in central agencies. Rather, it is suggested that ways and means be found of budgeting and reporting all significant costs on the basis of the programs that utilize the services. How this can best be done depends on a number of factors, including the nature of the service. For example, the capital costs of buildings and other assets with extended useful lives could be absorbed by a revolving fund or similar entity, and charged to the programs that use the assets on a rental or similar basis. The costs associated with leasing and maintaining these assets could be charged to user programs in a similar manner. The revolving fund would attempt to equate the revenue thus derived each year, with the annual amortization of asset costs and the operating expenditures.

Personnel, legal, audit and other services could probably be distributed to user programs in a simpler manner.

The rates charged for centrally provided services would need to be determined periodically in advance so that the user programs and entities could prepare annual budgets for Legislative approval. Comparing these rates with the prevailing rates charged for similar services in the private sector would provide a basis for evaluating how efficiently the agencies providing the services were being administered.

In response to recommendations by the Auditor General in past years that the Province introduce a system similar to the one outlined above for allocating the costs of centrally provided services, the Provincial Treasurer has agreed in principle. In a report to the Select Standing Committee on Public Accounts in October 1983 he stated that a task force consisting of representatives of the Executive Council, the Treasury Department, and the Department of Public Works, Supply and Services has studied the issue, and its recommendations are being reviewed by Heads of the departments involved.

Pending decisions on the task force's recommendations, the Auditor General's recommendations are repeated:

*Recommendation: No. 20* *(1978-79: No. 33)*

*It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies that derive the benefit from their use. It is suggested that achieving this objective could be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover,* *consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.*

*Recommendation: No 21* *(1980-81: No.34)*

*It is recommended that in order to achieve more comprehensive and meaningful reporting of program delivery costs, consideration be given, in the longer term, to including maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.*

These two recommendations are designed to form a basis for a system that combines centralized control with decentralized accountability, and their adoption should not be viewed as a mere accounting exercise. It would result in the publication of complete and meaningful program costs and provide Government and senior administration with more useful information than is currently available with which to plan future budgeting and program activities. It would also enhance the accountability of program managers to senior management, and senior management and ministers to the Legislative Assembly.

### 2.4.2 ALBERTA HERITAGE SAVINGS TRUST FUND

In February 1982, the Auditor General issued a special report on certain matters related to the Alberta Heritage Savings Trust Fund. In that report, and in his 1980-81 and 1981-82 annual reports (1981-82: subsection 2.2), the Auditor General made a number of recommendations aimed at improving the Fund's accountability to the Legislative Assembly. Among those recommendations were that the Fund's annual financial statements, together with the Auditor General's report thereon, should be reviewed each year by the Province's Audit Committee before the Fund's annual report is published.

The Government has accepted this recommendation and the last two annual reports of the Heritage Fund were reviewed by the Audit Committee as suggested. Accordingly, the recommendation is not repeated in this report.

### 2.4.3 ALBERTA HOUSING CORPORATION – LAND VALUES

Certain accounting policies of the Alberta Housing Corporation governing the capitalization of interest and development costs, and the treatment of gains and losses on land sales, together with recent economic conditions, have resulted in the recorded value of part of the Corporation's land inventory exceeding its market value.

The Corporation's balance sheet at March 31, 1983 discloses an investment in real estate projects at that date of $1,274,433,000. Of this amount, $339,485,000 is designated 'Land Assembly and Development' which represents the recorded value of land for future development and/or sale, together with development costs incurred thereon. Within this land inventory, approximately $78 million can be classified as short-term development land, and the remaining $261 million is long-term development land. Short-term development land is land that was considered to be for sale at the balance sheet date, while long-term development land was land held for development and/or sale at an undetermined future date.

The annual audit for the year ended March 31, 1983 revealed that the recorded value of that part of the land inventory designated short-term development land was in excess of the land's market value. The Audit Office undertook a parcel-by-parcel review of the Corporation's files and appraisal documents for the short-term development land, and based on the findings and discussions with senior Corporation management, the value of land originally recorded as $93 million was written down by $15 million to $78 million at March 31, 1983. It is believed that the recorded value of long-term development land also exceeded the market value. However, because of the long-term nature of the assets involved and in view of the uncertain nature of the real estate market between now and when the land is developed and/or sold, a write down similar to that for short-term development land was considered inappropriate.

One reason why the recorded value of some of the land inventory exceeded the market value at March 31, 1983 was that recent economic conditions have weakened the demand for land in many areas, resulting in fluctuating and decreasing values. As a result, the value of some land purchased by the Corporation two or more years ago was less than it was when the land was acquired. In addition to market fluctuations, however, the Corporation's method of accounting for the value of its land inventory also contributed to the recorded value exceeding the market value.

The Corporation has, for many years, employed the accounting policy of carrying its land inventory at original cost, plus related development costs and interest. Although capitalizing development costs and interest in this manner is an acceptable practice, generally accepted accounting principles dictate that such costs should not be capitalized if they cause the recorded value of the land to exceed the market value. In times of rapid inflation, land prices normally increase at a rate that outpaces the effect of capitalized interest and, similarly, development costs incurred usually increase the value of the land by amounts at least equal to the costs incurred. When land prices fluctuate and fall, however, care must be taken to ensure that capitalizing interest and development costs does not cause the recorded value of the land to exceed the market value.

Although it is recognized that in normal circumstances, capitalizing interest is an acceptable practice for land development entities such as the Alberta Housing Corporation, the Auditor General believes that it would be advisable to discontinue the practice immediately. If it is continued, and in the absence of an immediate inflationary trend in the real estate market, annual write downs of the recorded value of short-term development land will be inevitable and serious doubts may arise as to the appropriateness of the recorded value of long-term development land.

Part of the land held by the Corporation at March 31, 1983 consisted of sub-divided lots or parcels of land held for resale. The method used to account for gains and losses on sales of these lots also contributed to the recorded value of short-term development land exceeding the market value. When the Corporation develops and subdivides land and sells the lots piecemeal, the intention is to sell the land at cost. During the 1982-83 annual audit, it was observed that the anticipated selling price of a few remaining lots in a number of projects was substantially less than the recorded value. These projects should be reviewed regularly and adjustments made whenever the recorded value of the lots exceed their anticipated selling price.

The prices at which land is sold reflect, in part, the policies adopted by the Corporation. By capitalizing interest, the Corporation attempts to bring the recorded value of land to its selling price, thereby achieving a break-even on land sales in the financial statements. In the opinion of the Auditor General, this accounting practice is inappropriate and invites overvaluation problems such as those referred to above. It would seem more prudent, particularly while current market conditions prevail, to record this land at direct cost until it is sold and then, where appropriate, compute the selling price allowing for interest and other carrying charges. The Corporation's pricing policies should not dictate the value at which unsold land is recorded in the financial statements.

The Corporation recognizes that its primary objective is to help provide housing for low and medium income families. Achieving this objective often involves acquiring and developing land. If land is acquired and held by the Corporation for long periods before it is developed and/or sold, such acquisitions assume the characteristics of long-term investments. It appears that much of the long-term development land held by the Corporation ($261 million at March 31, 1983) may not be needed for many years. In the circumstances, it may be that the Province's Land Purchase Fund is a more appropriate vehicle than the Alberta Housing Corporation for acquiring and holding long-term development land.

In this regard, it is interesting to note how the interest capitalization and long-term land acquisition policies of the Corporation impact the annual financial results of both the General Revenue Fund and the Alberta Heritage Savings Trust Fund. The Corporation finances acquisitions of long-term land with money borrowed from the Heritage Fund on interest-bearing debentures. When the Corporation capitalizes interest on its long-term land holdings, it in effect, capitalizes

Heritage Fund income. However, in the Province's consolidated financial statements, the Corporation's land is written off as an expenditure.

If, however, the Corporation adopted the practice of not capitalizing interest on long-term development land, the impact would be somewhat different. The interest paid to the Heritage Fund (and not capitalized) would increase the Corporation's annual operating deficit which, in turn, is charged to the General Revenue Fund. In these circumstances, the Heritage Fund's debenture interest would, in effect, be paid by the General Revenue Fund.

Neither of these somewhat complicated accounting scenarios would occur if long-term development land was acquired and held by the Land Purchase Fund until it was needed by the Corporation. The Corporation's borrowings from the Heritage Fund would be reduced, thereby reducing the Corporation's interest expenditures and annual operating deficits.

*Recommendation: (No. 22)*

*It is recommended that the Alberta Housing Corporation:*

— *discontinue its accounting policy of capitalizing interest on land inventory.*

— *establish procedures to prevent the recorded cost of land inventory exceeding the market value.*

— *review regularly the status of its development projects to ensure that the projects' capitalized costs do not exceed the anticipated sale value.*

— *consider disclosing separately in its financial statements, land inventory designated short-term development land and land inventory designated long-term development land.*

— *consider using the Province's Land Purchase Fund for acquiring and holding long-term development land.*

## 2.4.4 CONTROL OVER CAPITAL PROJECTS

Certain aspects of the executive and legislative control exercised over many of the Province's major capital construction projects are in need of strengthening.

### Executive Control

Each year the Province spends many millions of dollars on major capital construction projects. The Alberta Heritage Savings Trust Fund is currently financing projects of this nature which it is estimated will eventually cost in excess of one and a half billion dollars. In addition, similar projects are frequently undertaken by other funds and Provincial agencies.

As a normal part of its annual auditing activities, the Audit Office reviews the financial control and reporting systems used by departments, funds and agencies to administer major capital construction projects. The control and information reporting weaknesses in these systems revealed by these reviews are reported to senior management of the administering entities so that corrective action can be taken. The most frequently observed shortcoming is that systems tend to be structured towards identifying and meeting cash requirements, rather than measuring and reporting to senior managers on whether the projects are achieving their cost-related objectives.

The following comments and suggestions are the result of experience gained, during the past few years, in reviewing the financial control and reporting systems used to administer major capital construction projects. They are included herein as matters for consideration by senior management of departments, funds and agencies when designing systems of this nature.

— Financial control and reporting systems should be designed to help senior management control and monitor the progress of projects. In this regard, information should be provided in a manner that distinguishes clearly between the effects of both controllable and uncontrollable factors and events.

- Project estimates or budgets should indicate the extent to which they are provisional or preliminary. Decisions to proceed with major capital construction projects are often announced before all factors affecting the total cost have been identified and evaluated. While it is obviously more desirable that such decisions should be based on complete and accurate information, all too frequently dependable cost projections are unavailable until later when the project is defined and costed in detail. Even then, however, the preliminary estimate associated with the first public announcement often continues to be referred to as the budget for the purpose of calculating cost overruns.

- Reports used by senior management to monitor the progress of major capital construction projects should identify and explain cost-variances on an ongoing basis. Because most projects of this nature are unique, information that becomes available later during the detailed planning and construction phases sometimes causes changes or refinements to previous cost estimates. Isolating and reporting these refinements when they are identified, enables senior management to monitor estimated cost to completion, and to evaluate the dependability of the budget estimating process.

- Reports used by senior management to monitor the progress of major capital construction projects should identify and explain project scope revisions. During the course of projects of this nature, opportunities or constraints may occur that result in decisions to expand, contract or otherwise vary the project. These project scope revisions sometimes change dramatically both the product and the cost of the project.

- Project estimates, and particularly estimated costs to completion of ongoing projects, should indicate the extent to which the effects of monetary inflation have been taken into account. Most major capital construction projects extend over several years. During that time price changes, commonly referred to as escalations, can have a substantial effect on project costs. Unless estimates and progress reports indicate clearly the effect of monetary inflation, senior management will be unable to differentiate between apparent overruns caused by price escalations and overruns caused by other factors such as inaccurate estimating or project scope revisions.

The above comments and suggestions relate only to certain aspects of the financial control that senior management should exercise over major capital construction projects. They do not address such necessary non-financial controls as, for example, systems to monitor the quality of work performed.

Having readily available the information referred to in the preceding paragraphs would enhance significantly senior management's control over major capital construction projects. Systems that identify and report problems when they occur or are first anticipated would enable senior management to play an active, rather than a reactive, role in project administration. They would also improve the accountability to senior management of project managers and operational personnel. The systems would also provide the information and explanations needed by senior management and ministers when applying for further resources.

*Recommendation: (No. 23)*

*It is recommended that financial control and reporting systems used by departments, funds and Provincial agencies to administer major capital construction projects be designed to provide, as a minimum, the following information to senior management on a prompt and frequent basis for each project and its components:*

- *Comparisons of the originally approved project budget to the most recently approved project budget, with details of increases and decreases resulting from inaccurate estimating, project scope revisions, price escalation or other relevant factors.*

- *Comparisons of total contract amounts to the corresponding portion of the most recently approved project budget;*

- *Comparisons of the latest cost estimates for project components, that have not yet been committed to contract, to the corresponding portion of the most recently approved budget;*

- *Analyses and comparisons of the following ratios and an explanation of their effect on the approved project budget:*
  - *(a) costs incurred to date as a percentage of the total contract amounts;*
  - *(b) work performed as a percentage of the latest revised quantity estimates for the total work required;*
- *Analyses of the impact of any significant event, such as a change in the scope of the project or a delay in the completion of a component of the project, on the estimated cost to completion for both committed and uncommitted project components.*

*Recommendation: (No. 24)*

*It is recommended that, in order to reduce the risk of decisions being made on the basis of inadequate or misleading information, financial information flowing from each major capital construction project as well as the methods and assumptions used in preparing cost and quantity estimates, upon which senior management relies when making policy decisions and when evaluating project progress, be regularly reviewed by persons with financial and technical expertise who are independent of the project manager.*

### Legislative Control

In his 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.8.1), the Auditor General suggested that Members of the Legislative Assembly are receiving insufficient information with which to debate and approve annual estimates for major capital construction projects. This situation weakens the Legislative Assembly's control over the Province's capital spending.

Major capital construction projects usually extend over several years. The Legislative Assembly, however, approves capital expenditure estimates annually. For Members of the Legislative Assembly, therefore, to debate and vote on annual capital construction estimates in an informed manner, it is logical that they should have certain information about the project as a whole. As a minimum, this information should include a description of the project and the originally approved budget together with any major changes since inception, costs already incurred and any budget variances related thereto, current year's costs and details of the project's anticipated status at the end of the current year, and estimated time and costs to completion. In all cases, the effects of actual and anticipated monetary inflation should be explained. At present, the annual Estimates of Expenditure contain little more than anticipated current year's expenditure and actual and estimated expenditure for the two previous years, often not on a project by project basis.

In his 1979-80, 1980-81 and 1981-82 annual reports, the Auditor General recommended that the Legislative Assembly strengthen its budgetary control over expenditure on major capital construction projects. He suggested that if annual appropriation bills were supported by more comprehensive information relating to ongoing capital projects, Members would be able to determine the total cost of major projects, and which projects are over budget and why. Thus would enable Members, and the Select Standing Committee on Public Accounts, to detect and investigate inaccurate and optimistic estimating, and uneconomical and ineffective project administration. At present, the information provided is insufficient to facilitate these legislative controls.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer rejected the Auditor General's recommendation on the grounds of precedent. He stated that providing such information in the annual Estimates of Expenditure would be contrary to the customs and traditions of the Province's parliamentary system. He also stated that the information, if required, could be elicited from the responsible minister by means of questions during Committee of Supply review.

While acknowledging the desirability of following precedent, it is suggested, nevertheless, that care should be taken lest custom and tradition be allowed to hinder beneficial progress. Each year, the Legislative Assembly approves significant capital project expenditures based on only a part of the information that could be made available. It is believed that decision makers in the private sector would insist on having considerably more information on which to base decisions on similar sized projects.

While it is also acknowledged that Members can question ministers during Committee of Supply review, in practice few questions are raised. This may be because Members are provided with insufficient information to enable them to ask detailed questions. With the information currently available to the Legislative Assembly, it would be very difficult for a Member to detect a situation where the whole annual appropriation was spent yet, due to slippage, delays or cost overruns, only half the anticipated work was performed at twice the cost, unless the Member had obtained detailed information about the project from another source. It should be stressed that this example is hypothetical and used herein for illustration purposes only From time to time, however, situations of this nature occur in varying degrees.

In November 1983, in response to a question in the Legislative Assembly, the Provincial Treasurer tabled a schedule of capital projects funded by the Alberta Heritage Savings Trust Fund. The schedule contained much of the information that the Auditor General is suggesting should be provided annually on all major capital projects to support the budget process.

The information tabled by the Provincial Treasurer in November 1983 showed how and why the costs of several major projects had escalated considerably over the originally estimated costs. The magnitude of these increases reinforces the Auditor General's belief that providing more comprehensive information on major capital projects to support annual appropriation bills would improve the suitability of the Estimates on a basis for controlling disbursements at both the legislative and executive levels of Government.

Collecting and providing the suggested information should not be difficult assuming that proper project administration and reporting systems are used by the departments and agencies that administer the projects. Accordingly, Recommendations No. 23 and No. 24 above should be implemented in a manner that provides the necessary information in the required form.

In view of the above, it is requested that the Government reconsider its earlier response to the following recommendation:

*Recommendation: (No. 25)* *(1979-80: No. 34)*

*It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills be supported by more extensive financial information on major capital construction projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future costs in relation to the original cost forecast, and the total estimated cost for each project. (This recommendation should not be interpreted as suggesting that the Legislative Assembly approve other than the next fiscal year's expenditures on these projects).*

### 2.4.5 PENSION LIABILITY

The financial position of the Province would be presented more meaningfully if the total liability for pension obligations was shown as a liability in the Consolidated Statement of Realizable Assets, Liabilities and Net Assets (the Consolidated Balance Sheet).

The Province of Alberta administers six pension plans and guarantees the liability of a seventh plan. At present, the Consolidated Balance Sheet records only a liability equivalent to the funds set aside for future claims on the six plans administered by the Province.

The total liability for pension obligations is disclosed in a note to the consolidated financial statements. The note states that the most recent actuarial valuations for the six plans administered by the Province were as at March 31, 1981, and for the seventh plan as at August 31, 1978. It also states that (a) the valuations of the six plans were based on uniform economic assumptions, including rates of discretionary cost of living increases; (b) demographic assumptions varied from plan to plan according to the particular characteristics of each plan; and (c) the actuarial valuation of the seventh plan was based on different assumptions and methods than were used when valuing the six plans, and no amount was included for future discretionary cost of living increases.

In his 1981-82 annual report (subsection 2.5.2), the Auditor General recommended that the Treasury Department negotiate with the Board of Administrators of the Teachers' Retirement Fund (the seventh plan) to obtain triennial actuarial valuations based on the economic assumptions and methods used when valuing the six plans administered by the Province. He also recommended that interim valuations of the Fund be performed at March 31 each year. The Auditor General's recommendations were predicated on the Treasury Department's previously indicated intention of obtaining actuarial valuations triennially for the six plans and computing valuations internally for the intervening years. The recommendations were designed to coordinate the valuations so that the total pension liability of the Province could be determined at March 31 each year.

In a report to the Select Standing Committee on Public Accounts in October 1983, the Provincial Treasurer stated that the Board of Administrators of the Teachers' Retirement Fund has agreed to provide a valuation at March 31, 1984 which will be an update of the August 31, 1983 quinquennial actuarial valuation. He also stated, however, that the Board has indicated that it considers it impractical to undertake March 31 valuations on a continuing basis.

The proposed valuation of the Teachers' Retirement Fund at March 31, 1984 will coincide with the next triennial valuation of the six plans administered by the Treasury Department. This will provide an opportunity of assessing the total pension liability of the Province with much more precision than has been possible in the past. Moreover, recognizing that a more useful assessment of the total pension liability would be obtained if common economic assumptions were used for all plans, the Audit Office has recommended this course of action to both Treasury Department and the Board of Administrators of the Teachers' Retirement Fund.

In his 1981-82 annual report, the Auditor General also recommended that consideration be given to reflecting the unrecorded liability arising under the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province. The consequent charge to operations could, if desired, be deferred and amortized over a number of years.

In his reply, the Provincial Treasurer stated that a review has been conducted of related practices of other provincial governments and the federal government, and the status of recommendations on pensions accounting in both the private and public sectors. He noted that Alberta's current practices are similar to those of most of the provincial governments. For this reason, and in view of the prevailing uncertainties and lack of generally accepted private or public sector standards for pensions accounting, it was decided that Alberta should continue to report the actuarial estimate of accrued pensions obligations (estimated triennially) by way of notes to the financial statements of the General Revenue Fund and the consolidated financial statements.

Recently, the Financial Accounting Standards Board (FASB) in the U.S.A. published its "Preliminary Views on major issues relating to Employers' Accounting for Pensions and other Post-employment Benefits." FASB's proposal calls for the pension liability, after deducting pension plan assets, to be disclosed on the balance sheet and the creation of an intangible asset to be amortized over future years. Although the proposal applies only to non-contributory plans, the Financial Accounting Standards Board issued a discussion memorandum on April 19, 1983 which states that application of the proposals to plans that provide for employee contributions does not seem to create particular problems or to raise controversial issues. Employee contributions increase plan assets when made and would, as a result, reduce the employer's cost relative to an equivalent non-contributory plan.

The Auditor General's reports for 1978-79 to 1981-82 contained estimates of the Province's unrecorded pension liability at the end of each fiscal year. These estimates were provided to illustrate the materiality of the liability and were based on the limited information available at the time.

Using the March 31, 1981 actuarial valuation as a base, the Audit Office has estimated the Province's liability for the six pension plans at March 31, 1983. It should be noted, however, that the scope for deviation inherent in such an exercise increases with the length of the period since the actuarial valuation.

| | March 31, 1983 Estimate | March 31, 1981 Valuations | Increase (2 years) |
|---|---|---|---|
| | | (Millions of Dollars) | |
| Local Authorities Pension Act | $2,549.1 | $1,672.5 | $ 876.6 |
| M.L.A. Pension Act | 24.3 | 18.5 | 5.8 |
| Public Service Management Pension Act | 598.8 | 431.6 | 167.2 |
| Public Service Pension Act | 1,864.4 | 1,351.8 | 512.6 |
| Special Service Pension Act | 256.8 | 167.5 | 89.3 |
| Universities Academic Pension Act | 683.8 | 472.1 | 211.7 |
| | 5,977.2 | 4,114.0 | 1,863.2 |
| Deduct: Pension Fund assets | 1,766.4 | 1,100.7 | 665.7 |
| Unrecorded liability | $4,210.8 | $3,013.3 | $1,197.5 |

The above figures show a significant increase in the estimated pension liability during the two years between March 31, 1981 and March 31, 1983. They also show that the increase in the Pension Fund's assets has not kept pace with the estimated increase in the liability.

In addition to the liability under the aforementioned six pension plans, the Province has guaranteed the benefits payable under the partially funded pension plan operating pursuant to the Teachers' Retirement Fund Act. The most recently completed actuarial valuation of this plan at August 31, 1978 revealed an unrecorded liability of $742 million. The valuation, however, was based on different assumptions and methods than were used when valuing the six other plans at March 31, 1981. Most significantly, the valuation of the six plans assumed a continuation of discretionary cost of living increases on the pensions of past and future retired members. The effects of such increases were not taken into account when valuing the Teachers' Retirement Fund.

Applying the actuary's suggested annual increments over the intervening years to March 31, 1983, produces an estimated unrecorded liability at that date for the Teachers' Retirement Fund plan of $1,335 million, excluding the effect of cost of living increases. Extrapolating this figure to include cost of living increases, using rule-of-thumb methods, and adding the liability for the other six plans produces a total unrecorded pension liability at March 31, 1983, after deducting pension plan assets, of approximately $6.0 billion.

If the full pension liability was charged to operations instead of deferring a portion of it, including this amount as a liability in the consolidated financial statements of the Province would reduce the consolidated surplus at March 31, 1983 from $11.3 billion to $5.3 billion.

Even if the substantial effect of the discretionary cost of living increases was removed from these estimates, a reasonable alternative in the circumstances, the unrecorded pension liability would still be approximately $3.6 billion, reducing the consolidated surplus at March 31, 1983 to $7.7 billion.

Unless significant additional funds are transferred to the Pension Fund, or pension contributions are increased or pension benefits reduced, the large net pension liability, currently unrecorded, will continue to grow. In the opinion of the Auditor General, the present practice of disclosing recent actuarial information in a note to the financial statements is a less desirable alternative to recording the total liability for pension obligations as a liability on the balance sheets of the General Revenue Fund and the Province.

In his 1981-82 annual report, the Auditor General also recommended that consideration be given to the several options available, any of which if implemented could control the future growth of the pension liability.

In his reply, the Provincial Treasurer stated that the pension liability is a concern of the Government as evidenced by the establishment of a $1.1 billion Pension Fund in 1981. The Government is continuing to review its funding policies and the means whereby the future growth of the liability can be controlled.

It should be noted that the Province's estimated pension liability, after deducting pension plan assets but including the effect of the estimated discretionary increases in the cost of living, increased by $770 million during the year ended March 31, 1983.

In conclusion, the Auditor General's concerns as outlined in this subsection are twofold. Firstly, that the Province's total liability for pension obligations should be recorded as a liability on the balance sheets of both the General Revenue Fund and the Province, and secondly, that ways should be sought of restricting the growth of the Province's net pension liability. These concerns should not be construed as suggestions that the Province should fund its pension obligations; whether or not to fund all pension obligations is a matter of Government policy and, therefore, beyond the scope of this report.

*Recommendation: (No. 26)* *(1978-79: No. 34)*

*It is recommended that:*

- *the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund agree upon common economic assumptions and methods that can be used when valuing the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund.*
- *in the light of the recent proposals issued by the FASB and general accounting trends on pension accounting, consideration again be given to reflecting the unrecorded liability arising from the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province.*
- *consideration be given to all available ways and means of restricting the growth in the net pension liability.*

### 2.4.6 PROGRAM EXPENDITURES OFFSET AGAINST REVENUE

The control exercised by the Legislative Assembly over certain program expenditures is weakened by budgeting and reporting them as deductions from revenue. Furthermore, the reporting practice employed is impacting, in an increasingly arbitrary manner, the allocation of monies to the Alberta Heritage Savings Trust Fund.

Governments in Canada normally adhere to the practice of budgeting and reporting revenues and expenditures separately. This enables total annual revenues and expenditures to be readily ascertained and, where a program budgeting and reporting system is used, has the added advantage of providing the legislative body and the public with details of amounts spent on each legislatively approved program. An important feature of this practice is that revenues are collected pursuant to statutes (or regulations thereunder), whereas expenditures (except for statutory expenditures) are disbursed pursuant to annual Appropriation Acts which must be budgeted and debated annually by the Legislative Assembly.

As can be seen from the above, the Legislative Assembly exercises more rigorous and frequent control over budgeted expenditures than it does over revenues. Accordingly, if program expenditures are budgeted and reported as deductions from revenues, they escape the annual debate and approval of the Legislative Assembly, and the control over them is weaker than the control over budgeted program expenditures. In addition, unless revenues and expenditures are reported separately, it is difficult to compare Government expenditure and increases or decreases therein, from one year to the next.

In most cases, the Province of Alberta adheres to the principle that revenues and expenditures should be budgeted and reported separately. In the following two cases, however, it does not:

1. The Exploratory Drilling Incentive credit and the Geophysical Incentive credit programs are designed to encourage the drilling of exploratory oil and natural gas wells and exploration surveys respectively. They are Provincial programs and, accordingly, if the above mentioned accounting principle is applied, costs incurred under these programs should be reflected as program expenditures in budget estimates and in the financial statements of the General Revenue Fund and the Province.

   Most credit entitlements under these two programs are not paid by the Province. Instead, drilling companies deduct credits due to them under these programs from royalties payable to the Province under the Mines and Minerals Act. To report these transactions correctly in budget estimates and the financial statements, total revenue should be "grossed up" by the total of credits deducted, and the credits should be reflected as program expenditures. This is not done, however, in either the budget estimates, or the financial statements of both the General Revenue Fund and the Province. Most costs incurred under these programs are reflected as deductions from non-renewable resource revenue.

   In response to a recommendation by the Auditor General that these programs be budgeted and reported separately, the Provincial Treasurer stated in a report to the Select Standing Committee on Public Accounts in October 1983:

   > "While the Government agrees that consistency in financial reporting is desirable, the accounting treatment should reflect program provisions and regulations. The accounting methods now used achieve this to the extent that they reflect the statutory provisions to offset these program provisions against revenue."

   In the view of the Auditor General, budgeting and reporting program expenditures separately would better reflect program provisions and regulations. If, however, the regulations are deemed to preclude separate budgeting and reporting, consideration should be given to seeking the necessary amendments. These could not only make available the advantages referred to earlier, but could address the anomalous situation referred to below.

   The value of credits allowed under these programs during the past three years was as follows:

| | Total Program Credits | Paid by Cheque | Allowed as deductions from royalties paid |
|---|---|---|---|
| | | (Millions of Dollars) | |
| 1980-81 | $151 | $ 3 | $148 |
| 1981-82 | $168 | $12 | $156 |
| 1982-83 | $219 | $40 | $179 |

   As explained above, the value of credits paid by cheque was budgeted and reported as expenditures, while the value of credits allowed as deductions from royalties was budgeted and reported as deductions from revenue. This situation is somewhat anomalous since both pertain to the same program, only the method of payment is different.

   The anomaly is more than just a departure from normal legislative practice, it also impacts the amount of non-renewable resource revenue that is transferred to the Alberta Heritage Savings Trust Fund each year. The value of credits allowed as deductions from royalties is deducted from non-renewable resource revenues when calculating the annual transfer to the Heritage Fund, whereas the value of credits paid by cash is not. The effect of the anomaly could become more significant in 1983-84 because the regulations have been amended so that the value of credits will automatically be paid by cash unless the royalty payor formally elects to receive it as a deduction. This creates a situation wherein decisions by oil and gas companies as to how (not how much) they will receive program benefits, affect the amounts transferred to the Alberta Heritage Savings Trust Fund.

2. The Alberta Income Tax Act and the Alberta Corporate Income Tax Act allow Alberta taxpayers to deduct certain allowances, in addition to those permitted by the Federal Income Tax Act, from their taxable income and/or their income tax payable. The Provincial allowances that reduce only income taxes payable without reducing taxable income are, in effect, Provincial programs approved by the Alberta Legislature. For corporate income taxpayers these programs include royalty credits and small business deductions. For individual income taxpayers, these programs include renter assistance credits and royalty credits.

   Accordingly, the cost of these programs and the administration fees paid to the Government of Canada should be reflected as program expenditures in the budget estimates and the financial statements of the General Revenue Fund and the consolidated financial statements of the Province.

   The impact on the reported figures for the 1982-83 fiscal year, caused by the above, is that both total revenues and total expenditures are understated by $909 million (1981-82: $316 million).

   In response to a recommendation by the Auditor General that these tax expenditure programs be budgeted and reported separately, the Provincial Treasurer stated in a report to the Select Standing Committee on Public Accounts in October 1983:

   > "The Government agrees that tax expenditure programs should be identified and reported upon, but there is no general agreement amongst governments that they should be provided for in budgetary appropriations and disclosed as expenditure in the financial statements. There is no clear distinction to determine which of these programs are "tax expenditures" and which are truly "revenue abatements"."

   The Auditor General considers that a reasonable definition of tax expenditures is any Provincial deduction that reduces income tax payable but that does not reduce taxable income. Revenue abatements are deductions that reduce taxable income.

As can be seen from the above, total revenues and total expenditures in the 1981-82 and 1982-83 financial statements were understated by $472 million and $1,088 million respectively resulting from the anomalous budgeting and accounting policies adopted for these programs.

*Recommendation: (No. 27)* *(1979-80: No. 35)*

*It is recommended that, in the interest of improved financial reporting and accountability to the Legislative Assembly, all costs of the Exploratory Drilling Incentive and Geophysical Incentive programs be budgeted as expenditures in the annual Estimates and disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs. It may also involve an amendment to Legislation.*

*Recommendation: (No. 28)* *(1979-80: No. 36)*

*It is also recommended that consideration be given to applying similar budgeting and financial statement disclosure requirements in other instances where significant program costs have been netted against revenue. For example, provincial income tax revenue from both corporations and or individuals is presented net of royalty credits, royalty rebates, small business deductions, renter assistance credits, political contribution deductions or credits allowed to taxpayers and administration fees paid to the Government of Canada.*

## 2.4.7 TIMELINESS OF FINANCIAL REPORTING

In his 1981-82 annual report (subsection 2.8.2), the Auditor General commented on the desirability of publishing the Province's annual public accounts and the Auditor General's annual reports much earlier than is now the practice.

The main benefit of publishing these documents earlier would be that the reported information would become more meaningful and relevant. At present, the public accounts are unavailable to the Legislative Assembly and its select standing committees until ten or twelve months after the end of the fiscal years to which they relate. The Auditor General's annual reports have been tabled later than that. Publishing these reports so long after the fiscal years to which they relate greatly diminishes their usefulness.

The Auditor General believes that the public accounts of the Province and the Auditor General's annual reports should be produced in time to be tabled during the fall sitting of the Legislative Assembly.

In response to a recommendation by the Auditor General in his 1981-82 annual report that the Government explore the feasibility of more timely financial reporting to the Legislative Assembly, the Provincial Treasurer stated:

> "The Government agrees that timeliness is a very important objective in our financial reporting and will be pleased to cooperate with the Auditor General in seeking improvement in accounting and auditing procedures, within existing resource constraints, which will achieve this objective.
>
> The Auditor General's report contains a very useful discussion of the issues which must be addressed. It should be recognized that significant improvements in timeliness may require compromises with respect to the comprehensiveness of financial reporting."

The Auditor General acknowledges that more timely financial reporting can only be achieved gradually and will call for the co-ordinated efforts of all parties involved. In addition, the way in which financial information is processed and produced by some Provincial entities will need to change. Before initiating major system changes, it will first be necessary to weigh the benefits to be derived from more timely reporting against the costs involved. As a major user of the Province's financial reports, the Select Standing Committee on Public Accounts could be approached when setting priorities in this regard.

Producing public accounts within the suggested time-frame will require careful co-ordination and changes to the accounting procedures currently used. The Treasury Department will need to establish and enforce deadlines for closing books of account and preparing financial statements for all departments, funds and Provincial agencies. The deadline by which many Provincial entities will be required to prepare their financial statements will probably need to be much earlier than at present to allow sufficient time thereafter for completing audits, consolidating financial statements and printing public accounts and the Auditor General's annual reports.

Imposing much earlier deadlines for preparing financial statements is impractical at present. One reason for this is that the centralized revenue reporting system and the accounts receivable systems of many departments do not facilitate accurate reporting until several months after fiscal year ends. Another reason is that the payment of accounts systems, used by most Government entities to determine accounts payable, produce reports in a similar time-frame. In addition, final reports on payments processed by the Province's central payments systems are not produced until approximately four months after fiscal year-ends. The factors that contribute to delays of this nature will need addressing and, in a number of situations, new or improved systems will be required.

The Audit Office would also need to change its present operating methods. Whereas at present many annual audits are completed in September or October, they would all have to be completed much earlier to achieve the suggested tabling deadline. This would mean that virtually all systems and transactional auditing would have to be completed by March 31 each year leaving the next few months available for completing the audits and subsequent reporting.

It should not be inferred from these comments that all Provincial agencies will need to radically overhaul their accounting systems if they are to achieve the proposed reporting deadlines. Many already produce their annual financial statements very promptly, while others could do so with just a little more effort. For some, however, including the departments that comprise the General Revenue Fund, the constraints referred to above effectively preclude more timely financial reporting until those constraints are eliminated.

As the Provincial Treasurer has acknowledged the importance of more timely financial reporting, it remains to be decided how it should be pursued. A useful beginning could be the establishment of a task force to address the matter. The task force could be chaired by the Office of the Controller and include representatives of the main parties affected. The broad mandate of the task force could be to recommend and obtain Government approval for appropriate financial reporting deadlines, and then to identify and find solutions to the problems involved.

In conclusion, the Auditor General is pleased with the Provincial Treasurer's response to his recommendation for more timely financial reporting and will be glad to co-operate with the Treasury Department in this regard.

*(1981-82: No. 47)*

*Recommendation: (No. 29)*

*It is recommended that the Treasury Department initiate action involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting to the Legislative Assembly. Such action should include seeking and addressing the requirements and preferences of the Select Standing Committee on Public Accounts for more timely reports on the Province's financial affairs.*

## 2.5. UNCORRECTED SYSTEMS WEAKNESSES AND DEFICIENCIES ORIGINALLY DETECTED IN PREVIOUS YEARS

### 2.5.1 ALBERTA RESEARCH COUNCIL

Deficiencies continue to exist in the financial systems and accounting records of the Alberta Research Council.

The Alberta Research Council is a Provincial Corporation that provides research and technical services to private business and to government. Its revenues and expenditures for 1982-83 were $37 million and $34 million respectively, and it administers assets valued in excess of $31 million. Previous annual audits of the financial statements revealed deficiencies in the Council's financial systems and accounting records. These deficiencies were reported to the Legislative Assembly in the Auditor General's 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.6.1).

Over the years, the Council has worked hard to eliminate the previously reported deficiencies. The 1982-83 annual audit, however, revealed that several deficiencies still existed. The Council is developing a new project accounting system which should help to correct the deficiencies remaining.

The deficiencies reported in the Auditor General's 1981-82 annual report, and the action taken or proposed to eliminate them, are as follows:

#### Fixed Assets

The Auditor General issued a reservation of opinion in his report on the Council's financial statements for the 1981-82 fiscal year. This was because the fixed asset accounting records were considered unreliable. Efforts by the Council to verify the accuracy of the records and the ownership of the assets had proved inconclusive.

During 1982-83, the Council satisfactorily verified the existence and value of the majority of fixed assets under its custody. The previously reported problems, however, relating to determining the ownership of certain fixed assets could not be resolved. These are assets that the Council has acquired for use on specific research projects. Depending on the terms of the research contract, the Council may receive title to these assets at the completion of the project, either automatically or at the discretion of the project's sponsor. At March 31, 1983, it could not be determined whether all the fixed assets included on the Council's balance sheet at that date belonged to the Council, or whether some still belonged to project sponsors.

The Auditor General issued a reservation of opinion in his report on the Council's 1982-83 financial statements. In his report he stated that since the Council did not identify those fixed assets to which it may not have title, he was unable to determine if any adjustment might be required to the balance sheet to adjust fixed assets and contributed surplus to reflect ownership of the assets.

#### Research Projects

The Council undertakes research projects that are sponsored by private business and government entities. These projects are governed by contracts between the Council and the sponsoring entity. The 1982-83 annual audit revealed that the system used to control and monitor research projects continued to be inadequate. The Council is confident, however, that the new project accounting system will rectify these inadequacies.

#### Project Contracts

Audits for earlier fiscal years revealed that control over projects was hampered by inadequately drafted contract documents. Often, contracts were silent on such important matters as types of time chargeable to the sponsor, disposition of assets acquired for the project, allocation of overhead costs and treatment of supplementary and escalated costs. These omissions also contributed to problems when billing project costs to sponsors.

During 1981-82, the Council established policy guidelines governing the form and content of sponsors' contracts. The 1982-83 annual audit revealed that the form and content of contracts drafted subject to the new policy guidelines were satisfactory. Some problems were still being experienced, however, with older contracts. In addition, instances were observed where project files lacked adequate supporting documentation to substantiate project cost billings.

### Accounts Receivable

The 1982-83 annual audit revealed a substantial improvement in the control exercised over accounts receivable and procedures to follow-up overdue accounts. Although inconsistencies continued to occur in the rates at which labour and other services were billed to projects, the Council is confident that this problem has since been resolved by the new project accounting system.

### Inventories and Expenditures

Audits for earlier fiscal years revealed deficiencies in the Council's systems for controlling and recording the ordering, receiving, custody, use of goods and services. The 1982-83 annual audit revealed that most previously reported deficiencies relating to the purchase, custody and use of inventories had not been eliminated. Senior officals of the Council expressed concern over these problems but considered their resolution to be low priority, particularly since additional resources will be required to rectify them. It is understood, however, that the priority of these problems may be reconsidered.

The 1982-83 annual audit also revealed that while improvements had been achieved, the systems relating to ordering, receiving and paying for goods were still deficient in the following respects:

— It was still possible for one person to order, receive and approve payments for goods. Unless these duties are segregated, the potential exists for employees to obtain goods fraudulently with little chance of detection.

— Procedures did not exist to ensure that the Council received credit for goods returned to suppliers.

— Current expenditure refunds, initiated by the Council or the Treasury Department, were not properly controlled.

— Some purchase orders and other documents required to evidence the receipt of goods could not be located.

The Council believes that some of these deficiencies will be eliminated by the new projects accounting system currently under development.

### Payroll

The previously reported internal control weaknesses in the payroll department caused by inadequate segregation of incompatible duties were eliminated during 1982-83. Problems persisted, however, with the control exercised over payroll documents submitted for computer processing. Procedures were not used to ensure that all batches of such documents were processed accurately and completely.

### General

The Auditor General again acknowledges the Council's ongoing efforts to correct the control deficiencies revealed by past audits. During the next annual audit, the effectiveness of the Council's new project accounting system in eliminating the remaining systems deficiencies will be evaluated. Until then, the Auditor General's recommendation for improvement is repeated.

*Recommendation: (No. 30)* *(1979-80: No. 45)*

***It is recommended that the Alberta Research Council continue with the action necessary to eliminate the remaining financial control problems in its fixed assets, research projects, project contracts, accounts receivable, expenditures and inventories, and payroll accounting systems.***

### 2.5.2 DEPARTMENT OF ENERGY AND NATURAL RESOURCES – COLLECTION AND CONTROL OF NATURAL GAS ROYALTIES

The Department of Energy and Natural Resources is addressing the previously reported deficiencies in its system for collecting and controlling natural gas royalties, though continued efforts will be needed to eliminate the deficiencies that remain. In particular, a new computer-based system is currently being developed to control and record all mineral revenues.

The Department is responsible for collecting and controlling the Province's share of royalties on natural gas and natural gas by-products (gas royalties). This revenue amounts to almost two billion dollars per year. In his 1981-82 annual report (subsection 2.4.1), the Auditor General outlined a number of serious weaknesses in the Department's gas royalty administration system that were reported to management following that year's annual audit. The weaknesses reported, and the action subsequently taken by the Department in response thereto, were as follows:

— During 1981-82, the Department's procedures for verifying the accuracy of information on monthly gas royalty reports was significantly in arrears. These monthly reports are submitted to the Department by Crown lessees and show how gas royalties are calculated. By comparing the information on monthly reports with the Department's data on the wells concerned and with data on gas gathered provided by the Energy Resources Conservation Board, the Department obtains assurance that the Crown share and production rate information on monthly reports is correct, and that reports are received for all producing wells. These procedures also help to ensure that the Province receives the gas royalty revenue to which it is entitled. If the procedures are significantly in arrears, their effectiveness is reduced considerably.

The 1982-83 annual audit revealed that although these verification procedures were not completely up to date, significant progress had been made, and is being made, towards performing them on a timely basis.

— During 1981-82, adjustments to gas royalties payable caused by adjusting actual gas cost allowances (GCAs) were significantly in arrears. GCAs are estimated by Crown lessees and deducted from gross royalties when calculating royalties payable on monthly gas royalty reports. After each year end, when allowable costs are determined and certified, they are substituted for the estimates and the amount of royalty payable is adjusted accordingly. Depending on the accuracy of the original estimates, these adjustments result in additional royalty payable or a royalty credit or repayment.

The 1982-83 annual audit revealed that 1979 GCAs were adjusted in November 1982, 1980 GCAs were adjusted in June 1983, 1981 GCAs were adjusted in December 1983, and 1982 adjustments are scheduled for September 1984.

— During 1981-82, procedural deficiencies allowed excessive and erroneous claims for holidays from payment of royalty to pass undetected. The 1982-83 annual audit revealed that these deficiencies had been eliminated and that claims were being monitored and checked to ensure that they were in accordance with the governing regulations. In addition, administrative control in this area had been strengthened.

— During 1981-82, gas volume verification procedures were significantly in arrears. The Department attempts to reconcile volumes of gas and by-products sold, as recorded on the monthly reports, with industry plant allocation statements. This procedure is designed to provide assurance that all gas and by-products produced are reported to the Department.

The 1982-83 annual audit revealed that considerable progress had been made towards performing these reconciliations on a more timely basis. Reconciliations for the 1979 production year were completed during 1982-83, for 1980 and 1981 they were completed in June 1983 and December 1983 respectively, and the 1982 reconciliations are scheduled for completion in September 1984.

Despite the considerable and generally successful efforts by the Department to deal with the weaknesses in its gas royalty collection procedures, it is agreed that inadequacies in the gas royalty system render it incapable of handling the future management and accounting needs of the Department. For this reason, the new system referred to above is being developed to control and record all mineral revenues. The first sub-system, for administering mineral taxes, is scheduled for implementation in March 1984.

In his 1981-82 annual report, the Auditor General also commented on the extreme complexity of the regulations governing the calculation and payment of gas royalties. He recommended that, after seeking input from the industry and all Government entities involved, consideration might be given to designing a more efficient and less complex way of calculating, verifying and collecting gas royalties.

In August 1983, the Department approved an action plan for a "gas administration project". This project will review the present requirements associated with calculating, verifying, collecting and reporting gas royalties, and seek ways in which the procedures and regulations can be simplified.

While acknowledging the progress made so far, the Auditor General's recommendations are brought forward in this report pending implementation of the new mineral revenues system and the outcome of the gas administration project.

*Recommendation: (No. 31)* *(1981-82: No. 20)*

*It is recommended that the Department of Energy and Natural Resources continue to develop a new system to record, monitor and control royalty revenues from natural gas and natural gas by-products. The Department should also continue to bring up to date the verification of its existing data.*

*Recommendation: (No. 32)* *(1981-82: No. 21)*

*It is recommended that before the Department of Energy and Natural Resources develop a new system to monitor and control royalty revenues from natural gas and natural gas by-products, consideration be given by the Government to seeking a more efficient and less complex way of calculating, verifying and collecting gas royalties. In this regard, input should continue to be obtained from the gas industry and all Government entities involved in monitoring the production, processing and selling of natural gas and natural gas by-products.*

## 2.5.3 DEPARTMENT OF TRANSPORTATION

The Department of Transportation has addressed many of the previously reported weaknesses and deficiencies in its financial controls and accounting systems, though some still remain.

The Department is responsible for developing, constructing and maintaining an integrated transportation system in Alberta. During 1982-83, it spent $968 million, mostly through its decentralized field offices and branches.

In his 1981-82 annual report (subsection 2.6.2), the Auditor General commented on a number of weaknesses and deficiencies that were observed during the 1981-82 annual audit of the Department's financial controls and accounting systems. Some of these weaknesses and deficiencies had persisted for several years.

In a management letter to the Deputy Minister of Transportation at the conclusion of the 1981-82 annual audit, the Auditor General described the weaknesses and deficiencies revealed by the audit and made detailed recommendations for their elimination. Further, in his 1981-82 annual report, the Auditor General recommended that the Department proceed without delay to eliminate the numerous deficiencies in its financial controls and accounting systems.

In a detailed response to the audit management letter in March 1983, the Deputy Minister of Transportation explained how the Department was addressing the Auditor General's concerns. He stated, in summary, that many of the concerns were dealt with during 1982-83 as part of a restructuring and strengthening of the Department's Corporate Financial Group, while others, due to their nature, were being addressed on a longer-term basis.

The 1982-83 annual audit of the Department revealed the following:

## Revenue and Accounts Receivable

The previously reported control weaknesses caused by inadequate segregation of incompatible duties among clerical staff in the Department's Revenue Accounting Section were eliminated during 1982-83. Further, the year-end accounts receivable schedules submitted to the Treasury Department for March 31, 1983 were accurate and in the prescribed form, unlike the schedules submitted for March 31, 1982. The previously reported weaknesses in the process used to raise and approve credit notes were eliminated and procedures for collecting outstanding accounts receivable were strengthened considerably.

The 1982-83 audit also revealed, however, that the Department still lacked a system for ensuring that the central office received all the information needed to bill revenues originating in the field offices and branches. This often resulted in late revenue billings with consequent collection difficulties. It may also have resulted in revenue not being billed. While it is acknowledged that improvements were made during 1982-83 in the systems for billing some types of revenue, deficiencies still persisted in the procedures used to bill airport revenue, property rentals, bridge repairs and federal government claims.

## Expenditure and Accounts Payable

During 1982-83, the Department began to design a "Financial Reporting and Control System" to address the previously reported system deficiencies in this area. Otherwise, except that the Department did not overspend the 1982-83 funds provided by the Legislative Assembly, most of the previously reported systems deficiencies persisted throughout 1982-83, though to a lesser extent.

## Fixed Assets

During 1982-83, there were no significant improvements in the control exercised over most of the Department's fixed assets, except that work began on a system for recording and controlling the Department's office furniture and equipment. For the majority of the Department's fixed assets, however, there was no central system requiring regions, districts and branches to maintain custodial records of a uniform standard. In particular, there were no effective procedures for identifying and dealing with lost, obsolete or surplus assets.

## Payroll

The previously reported incidence of errors in the records maintained to support payroll payments diminished significantly during 1982-83. However, the internal control weaknesses caused by inadequate segregation of duties in the processing and distribution of payroll cheques still persisted throughout the year. Situations existed where, for example, the same person was responsible for preparing and approving payroll documentation, and subsequently receiving the payroll cheques for checking and distribution. Foremen and project managers were sometimes responsible for hiring and firing, as well as for initiating and distributing payroll cheques.

Situations like these make it possible for a person to fraudulently initiate and obtain payroll cheques for non-existent or released employees with little chance of detection. No frauds were discovered during the audit, though in the circumstances, such frauds if they occurred would be extremely difficult to detect.

### Other Matters

The 1982-83 audit also revealed that the Department had not established an internal audit unit as was suggested in the Auditor General's 1981-82 annual report. The reluctance to proceed with this suggestion appears to arise because the Department perceives the role of internal audit as being only financial and administrative and, therefore, an unnecessary duplication of the role and responsibility of the Finance and Administration Division. However, the Audit Office views the role of internal audit as being much broader. A properly organized and operated internal audit function should provide independent assurance to Senior Departmental Management that administrative, technical and financial systems are operating as they should. In this respect, if the Department's major concerns relate to the quality of performance on construction projects, it would be appropriate for the internal auditor to be an engineer rather than an accountant. If the concern relates to the adequacy of reporting on projects, the internal auditor should perhaps be someone with project management skills.

It is acknowledged, however, that some systems and controls had been reviewed by the Department's Finance and Administrative Services Division in a manner similar to an internal audit group. Nevertheless, because of the large, complex and decentralized nature of the Department, senior management could derive significant benefits from the work of internal auditors capable of evaluating and monitoring the Department's engineering and other technical systems and projects. Auditing of this nature would complement the financial activity of an internal audit nature performed by the Finance and Administrative Services Division.

Most of the other significant weaknesses and deficiencies revealed by previous audits and referred to in the Auditor General's 1981-82 annual report were addressed and/or eliminated by the Department during 1982-83.

In conclusion, although the Auditor General acknowledges the significant progress made by the Department in eliminating many previously reported system deficiencies, his recommendation is repeated pending elimination of those deficiencies that remain.

*Recommendation: (No. 33)* *(1981-82: No. 40)*

*It is recommended that the Department of Transportation continue with its efforts to eliminate the deficiencies in its financial controls and accounting systems.*

## 2.5.4 HEALTH CARE INSURANCE FUND

In his last four annual reports (1981-82: subsection 2.6.3), the Auditor General observed that the Health Care Insurance Fund's monthly reconciliations of group premiums charged with group premiums received were considerably and consistently in arrears. In view of the significant amounts of money involved, it was recommended that this important control procedure be brought up to date. The annual audit for 1982-83 revealed that the Department of Hospitals and Medical Care had gradually cleared the backlog, and by March 1983 the status of monthly reconciliations was considered satisfactory in the circumstances.

In his last two annual reports, the Auditor General also noted that the Fund's monthly bank reconciliations had fallen considerably in arrears, and recommended that they be brought up to date. The 1982-83 annual audit revealed that this has since been done.

In view of the action taken, the Auditor General's recommendations are not repeated in this report.

## 2.5.5 PENSION ADMINISTRATION

The Auditor General's annual reports for the past three years (1981-82: subsection 2.6.4) have described the progress made towards eliminating the numerous accounting and financial control deficiencies in the systems employed by the Treasury Department to administer the Province's pension plans. These deficiencies were first reported to the Legislative Assembly following the 1978-79 annual audit. The 1982-83 annual audit revealed that although some deficiencies still remained, further and substantial progress had been made towards eliminating the previously reported deficiencies. Among the deficiencies that persisted were the following:

- There were undue delays in reconciling the independent record of pension contributions received (maintained in employer order on a separate accounting machine) with the main computer produced pension records. These reconciliations represent important controls to ensure the accuracy of the pension records, and delays in performing these reconciliations reduce their effectiveness.
- Alert messages produced by the computer system representing actual or potential processing errors were often not followed up or investigated.
- Procedures did not exist for ensuring that interest earned by contributors was adjusted (if necessary) when correcting adjustments were made to accumulated contribution figures. Corrective action on computer produced alert, error and warning messages usually did not include processing interest adjustments.
- Discrepancies in amounts received from employers were not always followed-up and cleared. Employers are required to include with their monthly remittances to the Treasury Department a statement, listing by employee the contributions deducted, and paid. Any discrepancy between the statement and the amount remitted is held in a "pending" account until it is investigated and corrected. Any discrepancy arising from processing the individual contributions recorded on a statement of remittance is identified as an "under/over contribution". Details of pending account items and under/over contributions are sent to employers for corrective action.

  During the 1982-83 annual audit, several instances were observed where employers were not notified of pending items and outstanding under/over contributions, and numerous instances were observed where although the employer was notified, there was no follow-up to ensure that the discrepancy was cleared.
- The information relating to contributions and pensions contained on the microfiche copies of contributors' history files was not always up-to-date and complete.
- Internal control over the processing of accounting adjustments continued to be weak. Lack of supervisory review of accounting adjustments prior to input for processing was identified as a major factor contibuting to the incidence of errors.

In view of the deficiencies that continue to exist in the accounting and financial control systems used to administer the Province's pension plans, the Auditor General's recommendation is repeated.

*Recommendation: (No. 34)* *(1979-80: No. 44)*

*It is recommended that the Treasury Department continue with efforts to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.*

### 2.5.6 TREASURY BRANCHES

In his 1981-82 annual report (subsection 2.6.5), the Auditor General noted that Treasury Branches Deposits Fund had, for 1980-81 and 1981-82, transferred funds from operating surplus to the General Revenue Fund without the ministerial approval required by legislation. It was recommended that ministerial approval be obtained to regularize both past and future transfers.

The audit for the year ended March 31, 1983, revealed that ministerial approval was obtained for past transfers. Furthermore, management has undertaken to obtain ministerial approval for future transfers, and accordingly, the recommendation is not repeated in this report.

## 2.6 MATTERS SUBJECT TO RECOMMENDATION IN PREVIOUS ANNUAL REPORTS THAT WERE EITHER REJECTED OR ARE NOT COMPLETELY RESOLVED.

2.6.1 The Auditor General has adopted the reporting practice of carrying forward, from one annual report to the next, any recommendations that remain unimplemented. Where, however, the Government has formally rejected a recommendation, or where an extended period is needed to resolve the underlying problems, the recommendations are not carried forward in the normal way but are noted in this subsection of the report. Should events occur or circumstances change to warrant it, the relevant recommendations may be reactivated or the matter may no longer be reported.

### 2.6.2 Deemed Assets

In his 1978-79 annual report (subsection 4.4.1), the Auditor General suggested that the accounting practice of showing "deemed assets" on the balance sheet of the Alberta Heritage Savings Trust Fund is potentially misleading. "Deemed assets" represent the accumulated expenditures of the Fund's Capital Projects Division; they are not assets of the Fund nor, in many cases, are they assets of the Province. Accordingly, and despite full disclosure in the Fund's annual financial statements, showing these expenditures as assets on the balance sheet creates potential for misunderstanding the true value of the assets of the Fund. Although the financial statements are designed to mitigate against readers misunderstanding the value of the Fund's assets, it has been noted that the Fund's total value is often quoted using a figure that includes "deemed assets".

The Government rejected the Auditor General's recommendation on the grounds that section 6(8)(a) of the Alberta Heritage Savings Trust Fund Act requires this accounting practice and, as such, represents public policy as established by statute.

It is important to note that the Auditor General's concern is that the current financial statements create potential for misunderstanding; not that they are misstated. The financial statements are prepared in accordance with the governing legislation and disclose fully the accounting principles and methods employed. For this reason, the financial statements of the Fund are properly and fairly stated in accordance with the disclosed basis of accounting.

### 2.6.3 Program Effectiveness

In his 1978-79, 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.8.1), the Auditor General recommended that departments and agencies improve the accountability information provided to the Legislative Assembly respecting program objectives and accomplishments. He suggested that program objectives should be published with specific and quantitative data being provided wherever practicable as measures of the intended use of the funds requested. This information would be available to Members of the Legislative Assembly when they consider the annual Estimates of Expenditure. After the end of each fiscal year, the departments and agencies would prepare reports summarizing the accomplishments resulting from the expenditure of funds for each program. The reports would also compare the accomplishments with the objectives and quantitative data provided in the estimates. If the Ministers responsible for the programs laid these reports before the Legislative Assembly each year, accountability would be improved and the Assembly's control over the "public purse" would be enhanced.

The Government rejected the Auditor General's recommendation on the grounds that it considers that the information presently published in the Estimates of Expenditure and in the annual reports of departments and agencies is adequate. It undertook, however, to give careful consideration to situations where management control systems audits performed by the Audit Office reveal instances where the achievements of programs can be measured more accurately.

It is interesting to note that in recent years, program evaluation has gained in popularity and acceptance in many jurisdictions. Several Canadian provinces, for example, have increased the scope and quantity of their evaluation activity. Most of these view program evaluation as an important management information and decision-making source and the Government of Canada has gone further by including selected evaluation results in the accountability information it tables in Parliament. In the United States, the legislation governing many major federal programs calls for the results of the programs to be evaluated and published periodically. In the United Kingdom, a recent paper on financial management in government departments presented to Parliament by the Prime Minister stated:

> "In particular, it is intended to develop the White Paper to contain clearer statements of the policy objectives to which expenditure is directed; and these will in turn be related to progress and performance indicators wherever possible. The intention is that there should be the closest possible relationship between both the public expenditure White Paper and the Estimates and the information systems which departments are developing for the management both of programmes and of their own activities and costs.
>
> The general aim is to disclose as much information as possible from departments' internal management information systems. There are however clearly some areas where publication is not appropriate, for example because the material has security implications, or because it would disclose management intentions where this would be self-defeating, such as in action against fraud or tax-evasion. Each Minister in charge of a department must make his own decisions about these matters."

It is believed that the everpresent need to allocate proposed budgetary expenditures more effectively, and the advances taking place in some jurisdictions in program evaluation methodology, will inevitably combine to promote the establishment by the Province of systems to measure program effectiveness where such systems are cost effective and do not expand the Public Service.

### 2.6.4 Fixed Assets

In his 1978-79, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.3.7), the Auditor General observed that the control exercised by the Government of Alberta over much of the Provincially owned furniture and equipment was inadequate and ineffective. He recommended that the systems used by many departments, funds and agencies to control and safeguard fixed assets be improved to comply with the requirements of section 9.5 of the Treasury Department's Manual of Financial Administration.

The Government agrees with the Auditor General's recommendation and through the Office of the Controller, is encouraging departments and agencies to improve their fixed asset systems. The Audit Office has noticed a gradual improvement in these systems and, as long as this trend continues, the Auditor General will not repeat this recommendation in his annual reports. However, as a normal part of annual audits, the Auditor General will continue to report observed inadequacies in fixed asset control systems to management of the applicable departments, funds and Provincial agencies.

### 2.6.5 Nursing Homes Program

In his 1979-80, and 1980-81 and 1981-82 annual reports (1981-82: subsection 2.4.6), the Auditor General commented on the need for the Department of Hospitals and Medical Care to strengthen control over the payment of per diem grants to nursing homes and to monitor compliance by nursing homes with certain regulations issued pursuant to the Nursing Homes Act.

Final decisions on how to address the underlying problems are dependent on an evaluation of recommendations contained in a report by a panel of citizens appointed by the Minister of Hospitals and Medical Care to review all aspects of the Nursing Home Program. Pending implementation of these decisions, the Auditor General will not repeat these recommendations in his annual reports.

### 2.6.6 Comparative Information on the Heritage Fund's Investment Performance

In February 1982, the Auditor General issued a special report on certain matters related to the Alberta Heritage Savings Trust Fund. In that report, and in his 1980-81 and 1981-82 annual reports (1981-82: subsection 2.2), the Auditor General suggested that there are significant benefits to be derived by comparing the performance of the Heritage Fund's Section 10 investments with the performance of similarly constituted investment portfolios in the private sector. He recommended, therefore, that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparative information, and that such information could be made available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund.

The Government rejected the Auditor General's recommendation for several reasons. Among these were that it does not consider that comparative performance information would be meaningful because of the special nature of the Heritage Fund, and because the amount of the Fund held in Section 10 investments is expected to decrease. In addition, it considers the non comparative yield-to-maturity and rate-of-return information currently provided in the Heritage Fund's annual report to be sufficient.

### 2.6.7 Income Tax Revenues

In his 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.3.13), the Auditor General commented on the difficulties involved in ensuring that, each year, the Province receives all the income tax revenues to which it is entitled.

In recent years, neither the Government of Canada nor the Province of Alberta has produced accurate estimates of the difference between Alberta income taxes assessed and the taxes that could be assessed if taxpayers complied fully with the law. Accordingly, neither the Province of Alberta nor the Auditor General are able to determine how much income tax receivable is not assessed, or to evaluate the effectiveness of the compliance and enforcement procedures used by the Government of Canada, as Alberta's agent, when collecting Alberta income taxes.

For these reasons, the Auditor General recommended that the Provincial Treasurer:

- estimate annually, either independently or in conjunction with the Department of National Revenue – Taxation, the income taxes assessable under the Alberta Income Tax Act.
- estimate annually how much income tax it is reasonable to expect will not be assessed assuming that the Department of National Revenue Taxation employs adequate compliance and enforcement procedures.
- require each year, prompt remittances to the Province of the difference between these two estimates, or explanations for any significant variances.

The Provincial Treasurer responded to this recommendation as follows:

> "One of the fundamental principles underlying Canada's income tax system is self-assessment – each individual is responsible to accurately report his taxable income. To encourage compliance with the provisions of the Income Tax Act, Revenue Canada each year audits a relatively small number of tax returns. This practice strikes a reasonable balance between unquestioning acceptance of returns filed by taxpayers and a detailed audit of each return which would be prohibitively costly and an undue burden on individual Canadians.
>
> The Auditor General of Canada reviews the sampling selection system used by Revenue Canada. As long as the federal Auditor General is satisfied that the procedures being used are adequate, we see no basis for questioning Revenue Canada's administrative practices.
>
> Although there are no doubt cases where individuals are not paying tax on all or part of their incomes, the Alberta government believes that the administrative procedures used by Revenue Canada are, on balance, fair and appropriate. Under the terms of the Alberta-Canada Tax Collection Agreement, Alberta is entitled to receive only the tax that is actually assessed. The Government, therefore, does not intend to ask for payment from the federal government of taxes which Revenue Canada does not assess."

In view of this response, the recommendation is not carried forward again in this report. During future audits of Provincial revenues, however, the Audit Office will review the basis for the conclusions contained in the Provincial Treasurer's response.

The Provincial Treasurer's response indicates that Alberta does not intend to question the administrative practices of Revenue Canada providing that the Auditor General of Canada is satisfied that the procedures being used are adequate. However, in his 1980 annual report, the Auditor General of Canada recommended that the Department of National Revenue – Taxation improve its estimate of the tax gap associated with individuals who do not file income tax returns. It would appear, therefore, that reason may exist for questioning Revenue Canada's administrative procedures for determining income taxes collectable under the Alberta Income Tax Act. The Audit Office will continue to monitor any reports or statements issued by the Auditor General of Canada respecting Revenue Canada's administrative procedures that impact the assessment and collection of Alberta income taxes.

### 2.6.8 Access to Taxation Records

In his 1978-79, 1979-80, 1980-81 annual reports (1980-81: subsection 2.6.1), the Auditor General commented on the circumstances that restrict his right of access to certain taxation records. The terms of the tax collection agreement between the Governments of Alberta and Canada effectively prevent the Auditor General of Alberta performing the audit work necessary to report on the collection of Provincial income taxes as required by subsection 19(2)(a)(i) of the Auditor General Act. In recent years, the Auditor General has obtained a measure of assurance, from audit work performed by the Auditor General of Canada, that the Province receives each year, the income taxes to which it is entitled. However, if at some future time the Auditor General of Alberta considered that further assurance is required to enable him to discharge his responsibilities under the Auditor General Act, the terms of the tax collection agreement could prevent him from obtaining such assurance.

In response to a recommendation that the restrictions to the Auditor General's right of access to certain taxation records be eliminated, the Provincial Treasurer has undertaken to raise the matter when federal-provincial negotiations of the tax collection agreement are next held.

## 3 PUBLIC ACCOUNTS

### 3.1 INTRODUCTION

3.1.1 This section of the annual report contains a commentary on the main elements of the public accounts of the Province, viz. the Consolidated Financial Statements of the Province, the General Revenue Fund and the Alberta Heritage Savings Trust Fund.

3.1.2 The public accounts of the Province for the year ended March 31, 1983 are presented in two volumes. Volume I contains the following financial statements, together with the reports of the Auditor General thereon:

1) Consolidated financial statements of the Province of Alberta.
2) Financial statements of the General Revenue Fund.
3) Financial statements of revolving funds, regulated funds, Provincial agencies and trust funds administered by the Government.

Volume II contains details of expenditure and revenue by department, and statements and reports included in the public accounts in accordance with the Financial Administration Act and other statutes. In addition to the public accounts, a report containing details of expenditure by payee is provided as supplementary information.

3.1.3 The Auditor's Report in subsection 1.3.5 of this report covers the consolidated financial statements of the Province. A similar Auditor's Report covers the financial statements of the General Revenue Fund – which are contained in Volume I of Public Accounts – as well as various details of departmental expenditure and revenue contained in Volume II.

The report containing details of expenditure by payee is not covered by the Auditor's Reports mentioned in the previous paragraph since it is not an integral part of public accounts. However, the system employed to produce the information contained therein is subject to review by the Auditor General.

## 3.2 CONSOLIDATED FINANCIAL STATEMENTS OF THE PROVINCE OF ALBERTA

3.2.1 The consolidated financial statements of the Province are an aggregation of the financial statements of most entities owned and controlled by the Province of Alberta. The two main components are the General Revenue Fund and the Alberta Heritage Savings Trust Fund.

3.2.2 The following is a summary of the consolidated net revenue expenditure and net assets of the Province for the year ended March 31, 1983, and the reported assets, liabilities and net assets at that date, with comparative figures for 1982:

| | 1983 | 1982 | Increase (Decrease) | |
|---|---|---|---|---|
| | (Millions of Dollars) | | | |
| Consolidated net revenue and net assets: | | | | |
| Revenue | $10,550 | $10,548 | $ 2 | - % |
| Expenditure | 11,344 | 8,415 | 2,929 | 34.8 % |
| Net revenue (expenditure) | (794) | 2,133 | (2,927) | (137.2)% |
| Net assets (surplus) at beginning of year | 12,064 | 9,931 | 2,133 | 21.5 % |
| Net assets (surplus) at end of year | $11,270 | $12,064 | $ (794) | (6.6)% |
| Consolidated reported assets, liabilities and net assets: | | | | |
| Current assets | $ 4,982 | $ 5,841 | $ (859) | (14.7)% |
| Portfolio investments | 3,781 | 3,195 | 586 | 18.3 % |
| Long term investments | 569 | 564 | 5 | .9 % |
| Equity in commercial enterprises | 1,871 | 1,785 | 86 | 4.8 % |
| Loans and advances | 7,802 | 5,994 | 1,808 | 30.2 % |
| | 19,005 | 17,379 | 1,626 | 9.4 % |
| Less: Current liabilities | 2,411 | 1,645 | 766 | 46.6 % |
| Unmatured debt | 3,332 | 2,086 | 1,246 | 59.7 % |
| Restricted profits and equity | 1,992 | 1,584 | 408 | 25.8 % |
| | 7,735 | 5,315 | 2,420 | 45.5 % |
| Net assets (surplus) at end of year | $11,270 | $12,064 | $ (794) | (6.6)% |

3.2.3 The consolidated net assets (surplus) of $11,270 million at March 31, 1983, can be interpreted as being the net worth of Provincially administered assets at that date. Care must be taken, however, to recognize the effects on that figure of certain accounting principles employed in preparing the consolidated financial statements.

The following accounting principles and policies, most of which are described in the notes to the financial statements, had a significant impact on the consolidated net assets of the Province at March 31, 1983:

(1) The consolidation excludes the financial statements of the Provincially owned universities, colleges, hospitals and related funds listed in subsection 4.1.3 of this report. This is because section 2(5) of the Financial Administration Act exempts these entities from inclusion in the Public Accounts of the Province.

(2) The consolidation excludes the financial statements of Pacific Western Airlines Ltd.. Although during 1982-83 the Province held a majority of the voting shares in this corporation, and therefore it could have been considered to be a subsidiary, this investment is included in the consolidated financial statements at original cost.

(3) The Province's consolidated net assets at March 31, 1983 exclude Provincially owned fixed assets. This means that they do not include the value of the Province's land, buildings, equipment, fixtures and furniture. Many of these assets are readily marketable and accordingly, would significantly increase the Province's consolidated net assets if it was decided to sell them.

An exception to the accounting policy of not including fixed assets in consolidated net assets are entities designated "commercial enterprises" by the Treasury Department. Although the assets and liabilities of commercial enterprises are not aggregated on a line-by-line basis in the consolidated financial statements of the Province, they are recorded therein on an equity accounting basis. This has the effect of including the depreciated values of their fixed assets in the consolidated net assets of the Province. Entities designated commercial enterprises are:

Alberta Liquor Control Board
Alberta Terminals Ltd.
The Alberta General Insurance Company
The Alberta Government Telephones Commission
The Workers' Compensation Board
Treasury Branches Deposits Fund

The rationale for including the assets of these entities is that they will be used in future fiscal periods to earn revenue. The remainder of the Province's fixed assets are not included in the consolidated net assets. It is impossible for the Audit Office to estimate, with any degree of accuracy, the value of these fixed assets, though an idea of the magnitude of the figure may be gained from the value of fixed assets of the revolving funds. These assets are eliminated on consolidation. At March 31, 1983, the fixed assets in revolving funds had a total book value of approximately $277 million, and this figure does not include most Provincially owned land and buildings. Regardless of the valuation method used, it is obvious that including all of the Province's fixed assets in the consolidated statements would increase significantly the consolidated net assets of the Province.

(4) The consolidated financial statements exclude a major portion of the liability arising on the Province's various pension plans. This matter is dealt with more fully in subsection 2.4.5 of this report.

If the total liability for unfunded pension plans was included in the consolidated financial statements and no portion of it was deferred, the consolidated net assets (surplus) of the Province at March 31, 1983 would be reduced by approximately 6 billion.

3.2.4 The foregoing comments are to provide the reader with a better understanding of the published consolidated net assets and the methods employed in preparing the consolidated financial statements. They should not be interpreted as criticism since the methods used comply broadly with both the governing statutes and accounting recommendations contained in the Canadian Institute of Chartered Accountants' publication "Financial Reporting by Governments".

3.2.5 The consolidated statement of revenue and expenditure presents revenue and expenditure in aggregate form. The following statement shows where the surpluses and deficits originated for the two years March 31, 1983 and 1982:

|  | 1983 | 1982 |
|---|---|---|
|  | (Millions of Dollars) |  |
| General Revenue Fund: |  |  |
| Revenue | $7,085.8 | $7,086.9 |
| Expenditure: |  |  |
| Voted appropriations | 9,069.0 | 6,925.5 |
| Statutory appropriations | 64.6 | 117.8 |
|  | 9,133.6 | 7,043.3 |
| Budgetary surplus (deficit) | (2,047.8) | 43.6 |
| Net income (loss) of consolidated entities: |  |  |
| Regulated funds | 1,597.8 | 2,270.3 |
| Provincial corporations | (320.5) | (175.3) |
| Income retained by commercial enterprises | (23.3) | (5.7) |
| Consolidated net revenue (expenditure) | $ (793.8) | $2,132.9 |

3.2.6 Shortly after the end of the 1982-83 fiscal year, the Province decided to change its method of accounting for investments. The main feature of the change was that the 'deferral and amortization' method of accounting was adopted by certain funds and Provincial agencies that hold long-term investment portfolios containing long and medium-term debt securities. The deferral and amortization method has been used by The Workers' Compensation Board and the Glenbow-Alberta Institute for many years.

At the time that the decision was made, some funds and agencies had already finalized their 1982-83 financial statements, and hence, it was too late to effect the change for them. Nevertheless, the deferral and amortization method was adopted for the Consolidated Financial Statements of the Province, and for the:

— Alberta Heritage Foundation for Medical Research Endowment Fund

— Alberta Heritage Scholarship Fund,

— Pension Fund, and

— Province of Alberta Sinking Fund.

The deferral and amortization method can only be applied where the objectives of the investment portfolio are long-term and the general practice is to purchase and hold fixed term securities until maturity rather than to trade in such securities. It is assumed that the proceeds of a sale of a fixed term security will be reinvested in other fixed term securities to be held until maturity and thus sale and reinvestment can be regarded as an exchange.

Clearly this principle could not be applied to investment portfolios that were reducing in overall size. The sale price of the outgoing security exchanged may vary substantially with the book value of that security, thus giving rise to a significant book gain or book loss on disposal. To include the full amount of such gain or loss in the determination of income for the current year may create a severe distortion between return on investment as measured for accounting purposes and the effective investment yield. Under the deferral and amortization method each gain or loss is deferred and amortized over a specified period of years not greater than the period to maturity of the security sold. In order to reflect this adjustment in the income of future periods it is necessary, in effect, to value the securities at cost plus or minus the accumulated unamortized balance of losses or gains on disposals.

The deferral and amortization method, however, is not appropriate when accounting for stocks, shares and other equities. Effective 1982-83, these investments are carried at cost in the long-term portfolios of funds and agencies and, as in previous years, gains and losses on disposals are reflected in income in the years in which they occur.

Before 1982-83, many funds and agencies valued their debt securities and equities, for balance sheet purposes, at the lower of aggregate cost and market value. Gains and losses arising on disposals, and any change in the provision to adjust the cost to the lower of aggregate cost and market value, were included in the determination of net investment income in the years in which they occurred.

These changes have been applied retroactively to April 1, 1980. The cumulative effects of the changes are not significant in dollar terms because within each fund or accounting entity to which the changes were applied, aggregate market value at March 31, 1983 was above the cost of investments.

Although the deferral and amortization method of accounting for debt securities is not yet generally accepted, the Auditor General and specialists in the investment industry with whom he consulted, consider it to be appropriate in the circumstances.

3.2.7 The following rights and obligations accrue to the Province pursuant to its participation in the Syncrude joint venture:

By virtue of its 16.74% interest in the joint venture, the Province of Alberta (through the Alberta Heritage Savings Trust Fund) has a 16.74% interest in the venture's production and is responsible for a proportionate share of costs and expenditures incurred in connection with the operation of the joint venture.

The participants in the Syncrude joint venture are committed to provide financing for offsite accommodation for Syncrude Canada Ltd employees. Northward Developments Ltd is a company formed for the purpose of providing offsite housing and is owned by the participants in the same ratio that they participate in the Syncrude joint venture. At March 31, 1983 it was estimated that capital costs to complete offsite housing projects amounted to $3 million.

Responsibility for construction of a utilities plant to service the Syncrude Project was assumed by A.E.C. Power Ltd, an Alberta company in which Alberta Energy Company Ltd holds two-thirds of the issued share capital. Under the authority of Order in Council 602 76 dated June 1, 1976, the Province has guaranteed loans (including accrued interest) to A.E.C. Power Ltd which at March 31, 1983 amounted to approximately $255 million. The guarantees become effective if, at any time, the joint venture participants give notice to A.E.C. Power Ltd that the Syncrude Project has been abandoned.

Responsibility for construction or acquisition of a pipeline for the transportation of synthetic crude oil was assumed by Alberta Oil Sands Pipeline Ltd, an Alberta company wholly owned by Alberta Energy Company Ltd. If at any time the Syncrude joint venture participants give notice to the Company that the Syncrude Project has been abandoned, the participants are committed to guarantee (in their participation ratio) repayment of any outstanding debt incurred by the Company for the financing of the pipeline.

The participants in the Syncrude joint venture have entered into an agreement covering the construction, financing and operation of a natural gas pipeline to supply natural gas to the Syncrude Project. In the event of abandonment of either the Syncrude Project or the pipeline, the Syncrude joint venture participants may be required to repay (in their participation ratio) any amounts owing with respect to the bonds issued to finance the pipeline construction. Furthermore, in the event of default by the pipeline operator, the participants may purchase, at fair market value, the operator's interest in the operating equipment and may assume the operator's rights and obligations under the pipeline lease agreement.

Under the terms of the Alberta Crown Agreement, which stipulates the basis of calculation of the Province's royalty relating to the Syncrude Project, the Project was deemed to have entered its operating phase on March 1, 1979. From that date, the Province had a direct 50% interest, in lieu of royalty,in the deemed net profits of the joint venture. At the discretion of the Province, the 50% interest may be taken in product and sold directly, or sold by the participants on behalf of the Province. The Province has an irrevocable option, which may be exercised once only, and after March 1, 1984, to convert its 50% interest in the deemed net profit to a 7 1 2% interest in the gross production of the Project. This interest also may be taken in product and sold directly, or sold by the other participants on behalf of the Province. Both of the above interests were subject to a requirement that 30% (1983-84 – 15%) of the Province's revenue from non-renewable resources be transferred to the Alberta Heritage Savings Trust Fund, providing that the transfer is authorized by a special Act.

## 3.3 GENERAL REVENUE FUND

3.3.1 The following shows the summarized financial results of the General Revenue Fund for the year ended March 31, 1983, with comparative figures for 1982:

| | 1983 | 1982 | Increase/(Decrease) | |
|---|---|---|---|---|
| | (Millions of Dollars) | | | |
| Revenue | $ 7,085.8 | $7,086.9 | $ (1.1) | — % |
| Expenditure: | | | | |
| Voted appropriations | 9,069.0 | 6,925.5 | 2,143.5 | 31.0 % |
| Statutory appropriations | 64.6 | 117.8 | (53.2) | (45.2)% |
| | 9,133.6 | 7,043.3 | 2,090.3 | 29.7 % |
| Budgetary surplus (deficit) | $(2,047.8) | $ 43.6 | $(2,091.4) | |

3.3.2 During the 1982-83 fiscal year, the General Revenue Fund's cash and term deposits decreased by $538.2 million. The following provides a summary of the transactions accounting for the decrease with comparative figures for 1981-82:

| | 1983 | 1982 |
|---|---|---|
| | (Millions of Dollars) | |
| Budgetary surplus (deficit | $(2,047.8) | $ 43.6 |
| Items included in budgetary surplus deficit not affecting cash | (6.9) | 16.8 |
| Funds provided by (required for) budgetary transactions | (2,054.7) | 60.4 |
| Non-budgetary transactions: | | |
| Issue of 91 day Treasury Bills, net | 596.2 | — |
| Sale of investments, net | 395.1 | (307.4) |
| Repayments of loans and advances: | | |
| Brazeau River development costs recovered from TransAlta Utilities Corporation | 4.4 | 4.4 |
| The Alberta Government Telephones Commission | .6 | 1.2 |
| Alberta Hail and Crop Insurance Corporation, net | .6 | (1.7) |
| Municipal Loans Revolving Fund | .2 | 1.1 |
| Loans and advances: | | |
| Rural Electrification Revolving Fund | (3.0) | (5.0) |
| Motion Picture Development Fund | — | (3.0) |
| Others, net | (1.5) | 3.0 |
| Debt retirement including sinking fund | (12.8) | (12.4) |
| Increase in unearned revenue and suspense | (4.1) | (18.9) |
| | 975.7 | (338.7) |
| Net funds required | 1,079.0 | 278.3 |
| Add (deduct): | | |
| Increase (decrease) in receivables | (179.8) | 294.9 |
| Increase in payables | (361.0) | (169.7) |
| | (540.8) | 125.2 |
| Decrease in cash and term deposits | $ 538.2 | $ 403.5 |

3.3.3 The following provides a comparison, in summarized form, of the budgetary surplus (deficit) results for the year ended March 31, 1983 with the 1982-83 estimates.

| | Actual | Estimates | Over/(Under) Estimates | |
|---|---|---|---|---|
| | (Millions of Dollars) | | | |
| Revenue | $ 7,085.8 | $ 6,520.0* | $ 565.8 | 8.7 % |
| Expenditure: | | | | |
| Voted appropriations | 9,069.0 | 8,746.4 | 322.6 | 3.7 % |
| Statutory appropriations | 64.6 | 252.4 | (187.8) | (74.4)% |
| Total expenditure | 9,133.6 | 8,998.8** | 134.8 | 1.5 % |
| Budgetary surplus (deficit) | $(2,047.8) | $(2,478.8) | $ 431.0 | 17.4 % |

During the 1982-83 fiscal year, expenditure estimates were supplemented by special warrants totalling $860.5 million, for a total of $9,859.3 million. Of this amount, $6.4 million was required to meet liabilities recorded in the financial statements of the 1981-82 fiscal year leaving $9,852.9 million available for the 1982-83 fiscal year. A comparison of total actual expenditure with the $9,852.9 million shows that authorized funds remained unexpended in the amount of $719.3 million.

*Estimates of revenue have been reduced by $1,441 million to reflect the April 15, 1982 oil and gas activity program revisions.

**Estimates of expenditure have been reduced by $31.9 million which was voted for investment purposes.

3.3.4 The following shows the changes in Net Assets (Surplus) of the General Revenue Fund during the years ended March 31, 1983 and 1982:

| | 1983 | 1982 |
|---|---|---|
| | (Millions of Dollars) | |
| Net assets at beginning of year | $ 2,335.7 | $2,292.1 |
| Budgetary surplus (deficit) | (2,047.8) | 43.6 |
| Net assets (surplus) at end of year | $ 287.9 | $2,335.7 |

Due to a change in accounting policy related to sinking fund investments which was retroactively applied, the 1982 figures have been restated.

The net assets (surplus) at the end of the year should be viewed in light of the recommendation contained in sub-section 2.4.5 of this report.

3.3.5 The following are extracts from the notes to the financial statements of the General Revenue Fund relating to significant accounting policies and reporting practices:

(1) "The reporting entity is the General Revenue Fund. Activities of Provincial agencies and regulated funds are reported only to the extent of advances made from or repaid to the General Revenue Fund, contributions from the General Revenue Fund to cover expenses or operating deficits and repayments of contributions in excess of current requirements...." (Note 2(a))

(2) "Budgetary revenues are reported on an accrual basis except for net personal and corporate income taxes which are reported on a cash basis." (Note 2(b))

(3) "Pension costs are reported on a current contributions basis and no provision is made for actuarial estimates of additional annual costs." (Note 2(b))

(4) "No provision is made for accrued employee vacation entitlements." (Note 2(b))

(5) "Consistent with the reporting of capital acquisitions as expenditure, fixed assets are not reported." (Note 2(b))

(6) "No provision has been made in the financial statements for contingent liabilities resulting from litigation and guarantees." (Note 5)

Observations and recommendations in connection with the unfunded liabilities of pension plans are contained in sub-section 2.4.5 of this report. Furthermore, recommendations in connection with the non-inclusion of costs relating to accommodation, furniture, fixtures and equipment in program delivery costs are contained in sub-section 2.4.1.

3.3.6 A further matter to be considered with regard to the General Revenue Fund Net Assets balance is contained in the note relating to carrying value of the Province's investment in Pacific Western Airlines Ltd. This note, which appears in Volume I, Schedule 2.4 of the Public Accounts reads as follows:

> "The investment in Pacific Western Airlines Ltd., which represents 99.85% (1982 – 99.84%) of the outstanding voting shares, has not been adjusted for the Province's share of retained earnings. Pacific Western Airlines Ltd. reported earnings for the year ended December 31, 1982 of $6,309,000 (1981: $17,926,000) and retained earnings at December 31, 1982 of $76,642,000 (1981: $70,333,000)."

### 3.3.7 Income Tax Revenues

Provincial income tax revenues are reported in Volume I of the public accounts under the headings "Personal income tax, net" and "Corporate income tax" with a reduction for royalty tax credits to corporations. A note to the financial statements explains that income taxes are reported on a cash basis. This means that the figures in the public accounts represent cash received by the Province during the year without adjusting, at the beginning and end of each fiscal year, for income taxes owed or prepaid to the Province.

Both personal income taxes and corporate income taxes are reduced by various allowances, rebates and credits. Such reductions are commonly referred to as tax expenditures. The revenue statement of the Treasury Department in Volume II of the public accounts shows gross receipts of personal and corporate income taxes, together with the costs of certain tax expenditures including administration fees allowed against each.

The desirability of budgeting and reporting the costs of tax expenditure programs is discussed in subsection 2.4.6 of this report. Unless tax expenditure program costs are reported separately, neither the Legislative Assembly nor the public can assess the impact of the programs in terms of cost. This is why in his last three annual reports to the Legislative Assembly, and in this report, the Auditor General recommended that tax revenues and tax expenditures be budgeted and reported separately.

Since the public accounts do not report the costs of significant tax expenditure programs separately, the information is provided in this annual report. It should be noted however, that although both federal and provincial legislation affect Alberta income tax payable, only the costs of Provincial incentives which affect tax payable without changing taxable income, are reported here since they are Alberta programs.

The Province has two methods of collecting income taxes:

— The first method is used to collect income taxes from individuals:

Under this method the Government of Canada, as agent of the Province, assesses for and on behalf of the Province net individual income taxes imposed under the Alberta Income Tax Act and remits amounts in respect thereof to the Province.

The tax collection agreement provides that for each taxation year, the Government of Canada shall pay instalments on account to the Province beginning on March 1 of the taxation year in question and ending in February of the next taxation year. These instalments on account are based on estimates of Provincial income tax assessments as calculated by the Government of Canada.

The Government of Canada settles with the Province for the taxes assessed for a taxation year as follows:

i) The settlement date is fifteen months after the end of the taxation year.

ii) The settlement amount is determined by the assessments issued, for the taxation year in question, until the end of the following taxation year.

iii) Taxes assessed after the aforementioned cut-off date are paid to the Province with the settlements for subsequent taxation years.

All costs, charges and expenses, including the cost of bad debts written off, incurred in the collection of taxes by the Government of Canada to administer the Alberta Income Tax Act are paid by the Government of Canada. In consideration of the collection of taxes by the Government of Canada, the Province allows the Government of Canada to retain any penalties, fines or other amounts awarded in judicial proceedings (except penalties imposed under section 27 of the Provincial Act) together with any interest that is payable by a taxpayer under the Provincial Act. The Government of Canada charges fees to the Province for administering the Provincial tax credit, tax rebate and other tax reduction programs.

— The second method is used to collect income taxes from corporations:

Under the Alberta Corporate Income Tax Act, corporations pay instalments on account to and file income tax returns with the Province. For fiscal years commencing prior to January 1, 1981, corporations filed returns with the Government of Canada in a similar manner to individuals.

Now that the Province assesses and collects its own corporate income taxes, the Treasury Department should consider accounting for taxation revenues on an accrual basis.

The following are analyses, of individual and corporate income tax instalments received on account and assessments issued and the cost of related Provincial tax reduction programs and administration fees paid to the Government of Canada for the years ended March 31, 1980 to 1983:

### INDIVIDUAL INCOME TAXES

| | 1979-80 | 1980-81 | 1981-82 | 1982-83 |
|---|---|---|---|---|
| | | (Thousands of Dollars) | | |
| Assessments and instalments on account (Note 1) | $799,738 | $971,039 | $1,343,934 | $1,682,048 |
| Share of unapplied taxes (Note 2) | 3,715 | 6,277 | 25,118 | 20,956 |
| Gross receipts | 803,453 | 977,316 | 1,369,052 | 1,703,004 |
| Less: | | | | |
| Renter assistance credits | 24,539 | 30,325 | 33,543 | 37,332 |
| Royalty tax credits | 4,687 | 7,109 | 10,063 | 12,344 |
| Royalty tax rebates | 1,654 | 1,332 | 2,054 | 2,338 |
| Political contribution deductions | 234 | 521 | 234 | 325 |
| Total tax credits, rebates and deductions | 31,114 | 39,287 | 45,894 | 52,339 |
| Administration fees | 311 | 393 | 459 | 523 |
| Total deductions | 31,425 | 39,680 | 46,353 | 52,862 |
| Net receipts | $772,028 | $937,636 | $1,322,699 | $1,650,142 |

Notes:

1) Assessments are reported net of foreign income tax deductions, selective tax reductions, penalties assessed under section 27 of the Alberta Income Tax Act and remissions of income taxes payable on Alberta social assistance payments and on benefits and allowances to employees in isolated posts.

2) Unapplied taxes are amounts deducted at source from employees that have not, because of the failure of some employees to file tax returns, been allocated to the different jurisdictions.

### CORPORATE INCOME TAXES

| | 1979-80 | 1980-81 | 1981-82 | 1982-83 |
|---|---|---|---|---|
| | | (Thousands of Dollars) | | |
| Assessments and instalments on account (Note 1) | $448,340 | $651,023 | $718,657 | $ 736,606 |
| Allocated to the Utility Companies Income Tax Rebates Fund (Note 2) | 21,314 | 6,561 | 33,028 | 42,862 |
| Gross receipts | 427,026 | 644,462 | 685,629 | 693,744 |
| Less: | | | | |
| Royalty tax credits (assessments and instalments) | 102,646 | 108,176 | 131,994 | 728,238 |
| Small business deductions | — | 56,278 | 70,819 | 101,553 |
| Royalty tax rebates (Note 3) | 115,190 | 44,163 | 66,581 | 24,186 |
| Foreign tax credits | 504 | 862 | 172 | 1,072 |
| Corporation capital gains refunds | 38 | 59 | 280 | 582 |
| Rental investment tax credits | — | — | — | 476 |
| Political contribution deductions and tax credits | 30 | 156 | 17 | 98 |
| Total tax credits, rebates and deductions | 218,408 | 209,694 | 269,863 | 856,205 |
| Administration fees | 50 | 50 | 50 | 50 |
| Total deductions | 218,458 | 209,744 | 269,913 | 856,255 |
| Net receipts (disbursements) | $208,568 | $434,718 | $415,716 | $(162,511) |

Notes:

1) Assessments are reported net of royalty tax deductions where applicable (see Note 3) and include penalties and interest received under the Alberta Corporate Income Tax Act. Interest paid under the aforementioned Act is reported as a budgetary expenditure.

2) Allocations to the Utility Companies Income Tax Rebates Fund are made under section 3 of the Utility Companies Income Tax Rebates Act. The allocations are based on Provincial income taxes paid or estimated to have been paid by utility companies, carrying on business in Alberta, on revenues earned on sales of electrical energy, gas or steam in the Province to the public. The utility companies have agreed with the Provincial Treasurer that all payments made to them will be distributed to persons who are their wholesale or retail customers in Alberta.

3) Under the Alberta Corporate Income Tax Act there are no royalty tax rebates. Instead, a royalty tax deduction from taxable income is allowed before applying the Alberta allocation factor. This has the same effect as a royalty tax rebate on corporate income taxes payable to the Province. This change has resulted in a reduction of royalty tax rebates and an offsetting reduction in assessments and instalments on account. Royalty tax deductions, which are not separately shown above, reduced the taxes assessed in the 1982-83 and 1981-82 fiscal years by $143,401,867 and $957,065 respectively.

## 3.4 ALBERTA HERITAGE SAVINGS TRUST FUND

3.4.1 The audited financial statements of the Alberta Heritage Savings Trust Fund (Heritage Fund) are included in Section 4 of Volume 1 of the Public Accounts of the Province of Alberta. The following is a comparative summary of the Statements of Income, Retained Earnings, Transfers and Fund Equity for the years ended March 31, 1983 and 1982, contained therein:

| | 1983 | 1982 |
|---|---|---|
| | (Millions of Dollars) | |
| Income and Retained Earnings: | | |
| Net investment income | $ 1,484 | $ 1,009 |
| Administrative expenses | 2 | 3 |
| Net income for the year | 1,482 | 1,006 |
| *Transfer to the General Revenue Fund | 866 | — |
| | 616 | 1,006 |
| Retained earnings at beginning of year | 2,648 | 1,642 |
| Retained earnings at end of year | 3,264 | 2,648 |
| Transfers from the General Revenue Fund: | | |
| Non-renewable resource revenue transfer for the year | 1,357 | 1,434 |
| Cumulative transfers at beginning of year | 8,321 | 6,887 |
| Cumulative transfers at end of year | 9,678 | 8,321 |
| Fund equity at end of year | $12,942 | $10,969 |
| Represented by: | | |
| Net assets | $11,337 | $ 9,660 |
| Deemed assets | 1,605 | 1,309 |
| | $12,942 | $10,969 |

*Note: Pursuant to the Alberta Heritage Savings Trust Fund Amendment Act, seven-twelfths of the Heritage Fund's 1982-83 net investment income was transferred to the Province's General Revenue Fund to help reduce the budgetary deficit.

3.4.2 Users of the financial statements might expect "Fund equity at end of year" to represent the net assets of the Heritage Fund at March 31, 1983. As explained in note 2 to the Heritage Fund's financial statements, however, that figure includes $1,605 million of Capital Project Division "investments". These "investments" are not assets of the Heritage Fund but, as required by section 6(8)(a) of the Alberta Heritage Savings Trust Fund Act, are deemed to be assets with a value equal to amounts expended.

In his annual report to the Legislative Assembly for 1978-79, the Auditor General observed that disclosing these expenditures as deemed assets creates potential for misunderstanding the underlying substance of the recorded assets of the Heritage Fund. Accordingly, he recommended that the Act be changed to enable this accounting practice to be discontinued. The Government rejected this suggestion on the grounds that the financial disclosure requirements of section 6(8)(a) of the Act represent public policy as established by statute.

3.4.3 On consolidation of the financial statements of the Province of Alberta, the accounting policies of the Heritage Fund are adjusted to conform to the accounting policies employed by the General Revenue Fund. This results in deemed assets being written off as expenditure and not reflected as assets in the consolidated balance sheet of the Province.

## 4 WORK OF THE AUDIT OFFICE

(Reported pursuant to subsection 19(1)(a) of the Auditor General Act)

### 4.1 THE AUDITOR GENERAL AS AUDITOR

4.1.1 The clientele of the Audit Office is prescribed by section 12 of the Auditor General Act. Section 12(a) of the Act appoints the Auditor General auditor of every department, regulated fund, revolving fund and Provincial agency. Section 12(b) of the Act enables the Auditor General, with the approval of the Select Standing Committee on Legislative Offices, to be appointed auditor of a Crown-controlled organization or any other organization or body.

The entities audited each year by the Audit Office are listed in the following paragraphs indicating the Legislative authority for the Auditor General's appointment.

4.1.2 The Public Accounts for the fiscal year ended March 31, 1983 contain the audited consolidated financial statements of the Province of Alberta, the audited financial statements of the General Revenue Fund and the audited financial statements of the following Provincial agencies, revolving funds and regulated funds. The Auditor General is auditor of these entities pursuant to section 12(a) of the Auditor General Act:

Advanced Education:
- Students Finance Board

Agriculture:
- Agricultural Research Council of Alberta
- Alberta Agricultural Development Corporation
- Alberta Agricultural Research Trust
- Alberta Dairy Control Board
- Alberta Hail and Crop Insurance Corporation
- Alberta Terminals Ltd.
- Irrigation Land Manager
- The Horned Cattle Purchases Act Trust Account
- Wheat Board Money Trust Account

Attorney General:
- Public Trustee
- The Alberta General Insurance Company

Culture:
- Culture Revolving Fund
- Glenbow-Alberta Institute
- The Alberta Art Foundation
- The Alberta Cultural Heritage Foundation
- The Alberta Foundation for the Performing Arts
- The Alberta Historical Resources Foundation
- The Government House Foundation

Economic Development:
- Alberta Motion Picture Development Corporation

Education:
- School Book Branch
- School Foundation Program Fund
- Teachers' Retirement Fund

Energy and Natural Resources:
- Alberta Oil Sands Technology and Research Authority
- Alberta Petroleum Incentive Program Fund
- Alberta Petroleum Marketing Commission
- Forest Development Research Trust Fund
- Natural Gas Pricing Agreement Act Fund

Environment:
Alberta Environmental Research Trust
Environment Council of Alberta
Surface Reclamation Fund
Water Resources Revolving Fund

Executive Council:
Alberta Research Council
Energy Resources Conservation Board
The Alberta Educational Communications Corporation
The Workers' Compensation Board

Hospitals and Medical Care:
Edmonton Area Hospital Planning Council Fund
Health Care Insurance Fund

Housing:
Alberta Home Mortgage Corporation
Alberta Housing Corporation

Municipal Affairs:
Alberta Planning Fund
Improvement Districts' Trust Account
Metis Settlements Trust Fund
Special Areas Board

Public Works, Supply and Services:
Public Works, Supply and Services Revolving Fund

Recreation and Parks:
Alberta Games Council
The Recreation, Parks and Wildlife Foundation

Social Services and Community Health:
The Alberta Alcoholism and Drug Abuse Commission

Solicitor General:
Alberta Liquor Control Board
Alberta Racing Commission
Motor Vehicles Accident Claims Fund

Tourism and Small Business:
Alberta Opportunity Company

Transportation:
Alberta Resources Railway Corporation
Transportation Revolving Fund

Treasury:
Alberta Heritage Foundation for Medical Research Endowment Fund
Alberta Heritage Savings Trust Fund
Alberta Heritage Scholarship Fund
Alberta Municipal Financing Corporation
Consolidated Cash Investment Trust Fund
General Trust Account
Land Purchase Fund
Municipal Land Loans Act
Pension Fund
Retirement Annuities Fund
Treasury Branches Deposits Fund

Utilities and Telecommunications:
- Alberta Electric Energy Marketing Agency
- Gas Alberta Operating Fund
- The Alberta Government Telephones Commission
- The Alberta Government Telephones Employees' Pension and Death Benefit Fund

In the opinion of the Auditor General, inclusion of the above audited financial statements in the Public Accounts of the Province satisfies the reporting requirements of section 77 of the Financial Administration Act.

4.1.3 Section 2(5) of the Financial Administration Act exempts most of the Act's application to the following entities. Accordingly, the audited financial statements of these entities are not included in the Public Accounts of the Province. The Auditor General is auditor of these entities, which are the provincially owned universities, colleges, hospitals and related funds, pursuant to section 12(a) of the Auditor General Act:

Advanced Education:
- Colleges:
  - Grande Prairie Regional College
  - Grant MacEwan Community College
  - Fairview College
  - Keyano College
  - Lakeland College
  - Lethbridge Community College
  - Medicine Hat College
  - Mount Royal College
  - Olds College
  - Red Deer College
  - The Banff Centre for Continuing Education
- Universities:
  - Athabasca University
  - The University of Alberta
  - The University of Calgary
  - The University of Lethbridge
  - Chembiomed Ltd.
  - Academic Pension Plan Fund of the University of Alberta

Hospitals and Medical Care:
- Alberta Heritage Foundation for Medical Research
- Edmonton Radiopharmaceutical Centre
- Foothills Hospital Foundation
- University Hospitals Foundation

Hospitals:
- Alberta Children's Provincial General Hospital
- Alberta Hospital Edmonton
- Alberta Hospital Ponoka
- Foothills Provincial General Hospital
- Glenrose Provincial General Hospital
- Provincial Cancer Hospitals
- University of Alberta Hospitals

Although the audited financial statements of these entities are excluded from the Public Accounts, section 2 (5.1) of the Financial Administration Act requires the ministers responsible for administrating the statutes under which they operate to lay a copy of these financial statements before the Legislative Assembly, except for the financial statements of the Alberta Heritage Foundation for Medical Research. Furthermore, the Provincial Treasurer has undertaken, as a convenience to regular users of the Public Accounts, to request that the appropriate ministers make available sufficient copies of the financial statements to enable them to be sent to all who request them. In this manner, an appropriate degree of accountability is achieved.

Until April 1, 1982, the Northern Alberta Institute of Technology, the Southern Alberta Institute of Technology and the Westerra Institute of Technology operated as provincially administered institutions. As such, their revenues and expenditures were budgeted and reported as part of the Department of Advanced Education. On that date they became independent institutions governed by their own Boards, similar to the universities and public colleges. The first audited financial statements of the three Institutes cover the fifteen month period ended June 30, 1983.

4.1.4 The financial statements of the following entities are also audited by the Auditor General pursuant to section 12(a) of the Auditor General Act and are not reproduced in the Public Accounts of the Province:

Advanced Education:
- Alberta Microelectric Development and Application Centre
- Hydrocarbon Research Centre
- Provincial Laboratory of Public Health
- The Arctic Institute of North America

Agriculture:
- Lambco, a division of Alberta Agricultural Development Corporation

Culture:
- Glenbow Foundation
- Luxton Museum, a department of Glenbow-Alberta Institute
- Luxton Museum Ltd.

Education:
- Northland School Division No. 61

In most cases, the information contained in the financial statements of the above entities is also contained in other financial statements included in either the Public Accounts or in the audited financial statements of entities exempted from inclusion in Public Accounts by section 2(5) of the Financial Administration Act.

4.1.5 Pursuant to the provisions of section l2(b) of the Auditor General Act, the Select Standing Committee on Legislative Offices approved the Auditor General's appointment as auditor of the following entities:

Alberta Helium Limited

*Calgary Olympic Development Association
Canadian Energy Research Institute
Canadian Institute of Resources Law
Coal Mining Research Centre
Computer Modelling Group
Foothills Hospital Employees' Charity Fund
Glenrose Provincial General Hospital Staff Benevolent Fund
Glenrose Provincial General Hospital Staff Charities Fund
New Western Film & Television Foundation
Petroleum Recovery Institute
Sulphur Development Institute of Canada (SUDIC)
The Canadian Association of Youth Orchestras
The University of Alberta Foundation
University of Alberta Hospitals Employees' Benevolent Fund
University of Alberta Hospitals Employees' Charity Trust
*XV Olympic Winter Games Organizing Committee

*The Auditor General was appointed auditor of these entities for one year only.

The Auditor General was appointed auditor of the above entities at the request of management. Since in these instances there is no direct accountability to the Legislative Assembly, it is not considered appropriate to reproduce the audited financial statements in this report; nor are they included in the Public Accounts of the Province.

4.1.6 In addition to the entities covered by section 12 of the Auditor General Act, the Auditor General is also auditor of fourteen irrigation districts operating under the authority of the Irrigation Act, Chapter I-11, Revised Statutes of Alberta 1980. These irrigation districts are not provincially owned but receive cost-sharing funding for capital improvements from the Province of Alberta, particularly from the Alberta Heritage Savings Trust Fund. The Auditor General is appointed auditor of these districts under section 43 of the Irrigation Act. The irrigation districts concerned are:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

These irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly, the audited financial statements are not included in this report; nor are they in the Public Accounts of the Province.

4.1.7 Under the terms of the Alberta Crown Agreement, the Auditor General, acting on behalf of the Minister of Energy and Natural Resources, post-audits, on a continuing basis the books and records of the Syncrude Project. The purpose of this monitoring activity is to give assurance that there has been compliance with the Alberta Crown Agreement and related accounting manual and to verify the determination of the deemed net profit or loss of the Project, thereby establishing the quantity of synthetic crude oil and other leased substances that may be taken by the Province of Alberta as royalty. This right is currently being exercised by the Office of the Auditor General pursuant to the Agreement. This function may be transferred to the Department of Energy and Natural Resources if the necessary amendments are made to the Agreement.

The financial statements of Syncrude Canada Ltd, which operates the Syncrude Project, are audited by a firm of chartered accountants.

4.1.8 Crown-controlled organizations are defined by sub-section 1(b) of the Auditor General Act. Essentially, these companies qualify to be so designated because the Province of Alberta owns more than 50% but less than 100% of the issued voting shares. Crown-controlled organizations existing during the 1982-83 fiscal year were as follows:

Alberta Helium Limited
Pacific Western Airlines Ltd.
The University of Alberta Foundation
Westech Systems Ltd.

As explained in sub-section 4.1.5 of this report, the Auditor General is the auditor of Alberta Helium Limited and The University of Alberta Foundation. The financial statements of the other two Crown-controlled organizations are audited by firms of chartered accountants and the involvement of the Auditor General for the 1982-83 fiscal year was limited to the review function described in section 16(1) of the Auditor General Act. Since the information obtained during these reviews was deemed satisfactory, the Auditor General considered it unnecessary to exercise his powers under section 16(2) of the Act. In January 1983, Westech Systems Ltd., ceased to be a Crown controlled organization when it became only 50% owned by the Province.

4.1.9 The financial statements of the Alberta Energy Company, which is 45% owned by the Province of Alberta and therefore not a Crown-controlled organization, are neither audited by the Auditor General nor subject to section 16 of the Auditor General Act.

## 4.2 REPORTING RESPONSIBILITIES

4.2.1 The Auditor General reports to the Legislative Assembly under sections 18, 19 and 20 of the Auditor General Act, and to management under section 28 of the Act. In addition, specially requested reports are issued from time to time under section 17 of the Auditor General Act.

### Section 18 Reports

4.2.2 In a report issued under section 18 of the Act, the Auditor General states whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and whether they are on a basis consistent with those of the preceding year. A report of this nature is similar to reports issued by auditors on financial statements of private sector organizations audited in accordance with generally accepted auditing standards.

The section 18 report for the 1982-83 fiscal year was dated December 9, 1983 and is reproduced in subsection 1.3.5 of this report. Similar reports were issued on the financial statements of all entities of which the Auditor General is auditor. These reports are annexed to the related financial statements, most of which are contained in the Public Accounts of the Province.

### Section 19 Reports

4.2.3 In a report issued under section 19 of the Act (this report), the Auditor General reports to the Legislative Assembly on the work of the Audit Office, and various other matters specified in section 19 of the Act, if they were observed during the course of that work. There is virtually no limitation to what may be included in a section 19 report, since the Act empowers the Auditor General to call attention to any matter that he considers should be brought to the attention of the Legislative Assembly.

### Section 20 Reports

4.2.4 In a report issued under section 20 of the Act, the Auditor General may report to the Legislative Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until presentation of his annual report issued under section 19 of the Act.

No reports were issued under section 20 of the Act in respect of the fiscal year ended March 31, 1983.

### Section 28 Reports

4.2.5 Reports issued under section 28 of the Act are more commonly referred to as management letters. The purpose of management letters, as explained more fully in subsection 2.1.10 of this report, is to communicate system weaknesses and deficiencies to management together with other matters observed during audits.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. Copies of management letters are sent to the minister responsible for the audited entity and to the Secretary of the Treasury Board (except for Provincial agencies exempt under section 2(5) of the Financial Administration Act). Management letters are not made available to the Legislative Assembly or its select standing committees, nor are they required to be by the Auditor General Act.

### Section 17 Reports

4.2.6 Under section 17 of the Auditor General Act, the Legislative Assembly and the Executive Council may ask the Auditor General to perform special duties. Whether or not those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1982-83 fiscal year, the Auditor General received no requests to perform special duties pursuant to section 17 of the Auditor General Act.

## Audit Committee

4.2.7 Reports issued by the Auditor General under sections 19 and 20 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Select Standing Committee on Legislative Offices. Section 21 of the Act, however, establishes an Audit Committee which reviews these reports before they are presented to the Chairman of the Select Standing Committee. The following members were appointed to the Audit Committee by Order in Council 747 79 dated August 1, 1979:

Mr. Haughton G. Thomson, F.C.A.
Retired Partner
Deloitte Haskins & Sells, Chartered Accountants
Edmonton

Mr. Robert Colborne
President
Pacific Western Transportation Limited
Calgary

His Honour Clare L. Liden
Assistant Chief Judge
Provincial Court of Alberta

Mr. Robert A. McLaughlin
Retired Systems Analyst
Edmonton

Honourable Louis D. Hyndman, Q.C.
Provincial Treasurer of Alberta

The Auditor General acknowledges the helpful and constructive contributions of the Audit Committee during the review stages of the annual report for the 1982-83 fiscal year.

## 4.3 AUDIT ACTIVITIES AND RESPONSIBILITIES

### Role of the Legislative Auditor

4.3.1 Accountability has been described as a fundamental prerequisite to preventing the abuse of power in a democratic system of government. As such, the importance of accountability cannot be over emphasized. An important function of a legislative auditor is to report on the government's stewardship of public funds and resources, thereby improving the fidelity of the accountability process.

4.3.2 The role of a legislative auditor, in this regard, can be illustrated by describing how that role complements the accountability process. The Government presents its annual revenue and expenditure budgets (estimates) for debate in the Legislative Assembly. Once the estimates are formally approved by the Legislature, the government and its administrators are responsible for their implementation. In this way, the Legislature delegates authority to the government to ensure that collections of public funds are effected in accordance with the various statutes of the Legislature, that public funds are disbursed for the purposes for which they were authorized, that resources are managed in an economic and efficient manner and that, where appropriate, the effectiveness of government programs is evaluated.

Together with this authority, however, goes a responsibility for reporting back to the Legislature on how the public funds and resources were ultimately administered. This reporting process is termed accountability and is the basic method used by the Legislature to control the public purse.

4.3.3 Most accountability information provided to the Legislature is prepared by the government and its administrators and tabled in the Legislative Assembly. In Alberta, it is the responsibility of the Auditor General to examine and express an independent and objective opinion on appropriate parts of that accountability information.

The principle accountability information of a financial nature tabled in the Legislative Assembly is the annual Public Accounts of the Province. These are prepared by the Treasury Department and tabled by the Provincial Treasurer. Each set of financial statements contained in the Public Accounts includes a report by the Auditor General as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the entity concerned, in accordance with a disclosed basis of accounting and whether they are presented on a basis consistent with that of the preceding period. Because of his independent status and his position as an officer of the Legislature, the Auditor General's opinions add credibility to the accountability information contained in the Public Accounts.

4.3.4 Accountability information is also subject to scrutiny by the Select Standing Committee on Public Accounts. This all-party committee acts on behalf of the members of the Assembly in conducting an in-depth examination of the government's management and control of public resources. Here again, the Auditor General impacts the accountability process by the issuance of an annual report (this report) which may be used as a guide by the Select Standing Committee in its review of the Public Accounts and the activities of individual departments, Provincial agencies and regulated and revolving funds.

4.3.5 Adding credibility to accountability information, however, is only one of the functions of a legislative auditor. As a by-product of the audit work necessary to add this credibility, the auditor can also advise financial managers on systems designed to prevent fraud and error, to detect irregularities, to promote economy and efficiency and to control and administer resources. The auditor can also provide assurance, or otherwise, to senior management of departments, funds and Provincial agencies as to the quality of their financial administration. Through his annual reports, he can also provide similar assurance to the Legislative Assembly on the financial administration of the Province. In addition, there is little doubt that the knowledge that their work will be audited every year has a salutary effect on staff who might otherwise be tempted to misuse public monies.

### Auditing Standards

4.3.6 The Auditor General Act prescribes the reporting responsibilities of the Auditor General, as well as certain administrative duties and procedures. However, the Act does not prescribe how the Auditor General or his Office should function, or what auditing standards should be adhered to in discharging his reporting responsibilities.

The Auditor General believes that the nature of his appointment and the spirit of the Act place upon him an implicit responsibility to ensure that, as a minimum, the work of the Audit Office adheres to the contemporary auditing standards and methodologies used by private sector chartered accountants.

4.3.7 The Canadian Institute of Chartered Accountants (CICA) develops and promulgates recommendations which constitute "generally accepted auditing standards". These standards, which are published in the CICA Handbook, are binding on chartered accountants engaged in auditing the financial statements of profit oriented enterprises. Although government institutions do not fall within the definition of profit oriented enterprises, generally accepted auditing standards are adhered to by the Audit Office in the performance of its duties.

Section 15 of the Auditor General Act entitles the Auditor General at all reasonable times, to the information, reports, records, explanations and access to electronic data processing equipment he deems appropriate in the circumstances. Accordingly, it provides for the acquisition of such sufficient appropriate audit evidence which is, in the Auditor General's opinion, necessary to afford a reasonable basis to support the contents of his reports.

4.3.8 It is generally acknowledged that some people have an imperfect understanding of what constitutes an audit for the purpose of expressing an opinion on financial statements (a financial audit). Accordingly, it is considered appropriate at this juncture to elaborate on certain limitations in the auditing process.

It is accepted that in an examination made in accordance with generally accepted auditing standards, an auditor fulfills his professional responsibility by complying with those standards. When conducting an audit in accordance with generally accepted auditing standards, a financial auditor seeks reasonable assurance that fraud and error, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported. When planning his examination, the auditor is responsible, within the inherent limitations of the auditing process, for considering the risk of fraud and error and being alert for circumstances that might cause him to suspect their existence. If at any time his suspicions are aroused, the auditor must perform additional procedures to confirm or dispel those suspicions. Beyond that, the auditor has no separate or additional responsibility to detect fraud and error.

Accordingly, it must be realized that an audit performed in compliance with generally accepted auditing standards may not detect, and is not primarily designed to detect, every instance of fraud or error. The inherent limitations in the audit process are virtually unavoidable. An auditor would not have the resources to examine the circumstances behind and the support for every transaction recorded. Even if he had, he could not be sure that there were no unrecorded transactions. Furthermore, collusion between auditee personnel and outside parties, or among management or employees could result in apparently genuine but falsified transactions and documents being accepted by the auditor.

4.3.9 **In April 1982, following a review of the Audit Office's operating procedures, the Practice Review Committee of the Institute of Chartered Accountants of Alberta issued an opinion that the Audit Office:**

- **complies with generally accepted accounting principles and generally accepted auditing standards,**
- **complies with the standards of practice as set out in the Rules of Professional Conduct of the Institute, and**

— is maintained at a sufficiently high standard having regard to generally accepted standards in the practice of the profession.

### Accounting Principles

4.3.10 The usefulness of financial statements may be impaired unless people who use them are aware of and understand the accounting principles and disclosure standards employed in their preparation. Extensive and ongoing research by the CICA has resulted in the establishment of "generally accepted accounting principles". These principles are promulgated in the CICA Handbook as the recording and disclosure standards to be used by profit oriented enterprises. Government entities, however, are not profit oriented enterprises in the CICA context.

4.3.11 A research study published by the CICA in 1980 called attention to the wide diversity of accounting principles employed in the public sector in Canada and recommended that steps be taken to encourage greater standardization of financial reporting practices in the public sector. The situation at this time, however, is that generally accepted accounting principles for governments do not exist, though in September 1981, the Public Sector Accounting and Auditing Committee of the CICA began addressing the various issues involved. This Committee, the Western Section of which the Auditor General is Chairman, has the task of formulating recommendations for both auditing and accounting in the public sector. Meanwhile, in the interests of fair and consistent presentation, financial statements submitted to the Legislative Assembly are prepared either in accordance with generally accepted accounting principles, as promulgated for the private sector in the CICA Handbook, or alternatively, in accordance with an appropriate disclosed basis of accounting.

4.3.12 For some government entities, departures from generally accepted accounting principles are unavoidable. This is logical since what is appropriate to a profit oriented enterprise may be inappropriate to a government entity. In these situations, an alternative basis of accounting is adopted and explained.

When an appropriate disclosed basis of accounting is used, each significant departure from generally accepted accounting principles is included in a note to the financial statements of the entity concerned headed "Significant Accounting Policies and Reporting Practices". This note states that the financial statements are prepared in accordance with generally accepted accounting principles with certain exceptions. The accounting policies or practices employed which give rise to these exceptions are then explained in the note.

4.3.13 This form of presentation has been adopted for all financial statements other than those of the Province of Alberta Consolidated and the General Revenue Fund where the exceptions to generally accepted accounting principles were so numerous and significant that it was considered appropriate to omit reference to generally accepted accounting principles. Nevertheless the notes to the Province of Alberta Consolidated and General Revenue Fund financial statements headed "Significant Accounting Policies and Reporting Practices" explain the basis of accounting used.

The Audit Office exercises professional judgement in determining the suitability of employing accounting policies and practices at variance with generally accepted accounting principles. In all financial statements prepared as at March 31, 1983, or such other accounting periods ended within the year ended March 31, 1983, the disclosed departures from generally accepted accounting principles are considered by the Audit Office to be appropriate in the circumstances. However, the reader's attention is drawn to the recommendations contained in sub-section 2.4 of this report relating to certain accounting policies of general application.

### Audit Strategy

4.3.14 Generally accepted auditing standards apply to audits performed to report on the fairness of presentation of financial statements. By performing such audits for the Province's departments, funds and agencies every year, the Audit Office satisfies the requirements of section 18 of the Auditor General Act.

Section 19 of the Act, however, allows the Audit Office to report on other matters, such as non-compliance with legislation, inadequately safeguarded public assets and deficiencies in internal control systems.

4.3.15 These two sections of the Act form the basis for the Auditor General's two main objectives which are:

(1) to audit the annual financial statements of all departments, funds and Provincial agencies in accordance with generally accepted auditing standards, and

(2) to provide assurance or otherwise to the Legislative Assembly that legislation is being complied with, that public assets are being safeguarded and that internal control systems are adequate.

4.3.16 Although section 18 of the Act requires financial audits for all Provincial entities every year, the Audit Office is not required to examine every year, every area, circumstance or system which could give rise to an observation reportable under section 19. Since annual financial audits consume the majority of the Audit Office's resources, the Auditor General has adopted an overall audit strategy which augments annual financial audits with additional procedures on an annual, rotational or as required basis. These audit augmentations relate mainly to systems, and the extent and frequency of the additional audit procedures depend on the nature, objectives, complexities and size of the systems and the value and volume of transactions processed.

4.3.17 For example, if the Audit Office decides to rely on the controls in a financial accounting system for the purpose of supporting its financial audit opinion, the key controls in the system are evaluated during annual financial audits. This evaluation includes testing the operation of the key controls.

However, if the Audit Office decides against relying on the controls in a significant financial accounting system, it does not test the operation of those controls annually. Instead, it reviews the design of the system each year and evaluates the consequences of any apparent deficiencies. This enables the Auditor General to report design deficiencies to management annually and, where appropriate, to include them in his Annual Reports to the Legislative Assembly.

If the operation of key controls in a significant financial accounting system is not tested annually, it is tested rotationally.

4.3.18 Another way in which annual financial audit activity is augmented is by Management Control Systems (MCS) audits. The purpose of MCS auditing is to help management improve systems to ensure economy and efficiency and systems to measure and report on program effectiveness. In this regard, MCS audits are not designed to examine Cabinet decisions and Government policies; the auditor's duties begin after policy is set and published. It should be noted that MCS audits are currently performed on only a few systems each year.

4.3.19 The overall audit strategy is designed to address the Auditor General's aforementioned objectives using a combination of financial audits, systems auditing augmentations, MCS audits, and such other auditing procedures as testing for legislative compliance, special investigations, review of accountability information and concurrent or other preventive auditing.

## 4.4 ORGANIZATION OF THE AUDIT OFFICE

4.4.1 The Audit Office has recently been re-organized as part of an ongoing effort to improve the efficiency and effectiveness with which it utilizes its available resources. During the 1982-83 fiscal year, however, the Audit Office was divided into four operating divisions:

(1) General Audit Division

(2) Departmental Audit Division

(3) Systems Audit Division

(4) Resources and Administration Division

Each division was headed by an Assistant Auditor General, who, together with the Auditor General, collectively comprised the Audit Office Management Committee.

4.4.2 The General Audit Division was primarily responsible for the annual audits of all Provincial agencies, regulated funds and revolving funds. It was also responsible for audits of other organizations of which the Auditor General is auditor either by virtue of being appointed under other statutes or as authorized under subsection 12(b) of the Auditor General Act.

The main function of this Division was the performance of annual audits culminating in the expression of an auditor's opinion on financial statements prepared in accordance with generally accepted accounting principles or other disclosed bases of accounting. The Division was also responsible for audits designed to compliance test and report on significant accounting and management control systems, including those relating to economy, efficiency and effectiveness, administered by the entities referred to in the previous paragraph.

During the year, the Assistant Auditor General (General Audit Division) served as a member of the Auditing Standards Committee of the CICA.

4.4.3 The Departmental Audit Division was primarily responsible for audits of all Government departments, monitoring the disbursement control function of the Office of the Controller and obtaining sufficient appropriate audit evidence to support the Auditor General's reports on the financial statements of the Province and the General Revenue Fund. The Division was also responsible for audits designed to compliance test and report on significant accounting and management control systems, including those relating to economy, efficiency and effectiveness, administered by Government departments.

The Division developed a simulation system that operates on the Audit Office's own computer. This system simulates certain elements of the Government's main expenditure system by processing all transactions through the Audit Office's system and comparing the simulated results obtained with output from the Government's system. This activity significantly enhances the audit of the main expenditure system by providing early warning when material changes have occurred which effect the output of the system.

4.4.4 The Systems Audit Division was divided into three sections:

- Systems Development
- EDP Attest Audit
- Management Control Systems (MCS) Audit

The Systems Development section was responsible for developing computer assisted audit capabilities for use by all audit staff as well as administrative systems employed within the Audit Office. These systems are developed and operated with the aid of the Audit Office's computer, thereby enhancing the efficiency and effectiveness of the audit function. The use of this independent computing resource reduces significantly the risk of outside interference in the audit process.

The EDP Attest and MCS Audit sections were responsible for formulating, developing and promulgating the EDP and MCS audit policies and practices employed by the Audit Office, as well as providing assistance to other Divisions of the Audit Office in the application and use of such policies and practices.

4.4.5 The Resources and Administration Division was responsible for the efficient operation of the Audit Office, and ensuring that Audit Office Management Committee decisions and directives were properly implemented. It was also responsible for the personnel function including selecting and hiring staff, and for co-ordinating the budgetary and accounting functions. The Division was responsible for quality control including content, format and presentation of all audit reports, financial statements, management letters and other output of the Audit Office. This included monitoring for adherence with established policies and standards and maintenance of the Audit Office Staff Manual.

The Division was also responsible for maintaining the time recording and audit billing system, professional research and development, the establishment of professional practice standards and in-house peer review assignments.

4.4.6 The Audit Office has continued to utilize the services of private sector chartered accountants. These firms act as agents of the Auditor General under the provisions of section 10 of the Auditor General Act. The contributions of agents in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1983 were as follows:

Addison Halford
Arthur Andersen & Co.
Bailey Foulkes-Jones Lundell
Bevan, Hagen, Halbert and Ginet
Campbell Sharp Carpenter & Company
Clarkson Gordon
Colleaux & Mills
Collins Barrow
Coopers & Lybrand
Deloitte Haskins & Sells
Hudson & Company
Johnston, Morrison, Hunter & Co.
MacKay & Partners
Matthew Craig & Watts
Peat, Marwick, Mitchell & Co.
Price Waterhouse
Thorne Riddell Touche Ross & Co.
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

4.4.7 The audited financial statements of the Office of the Auditor General are reproduced in section 26 of Volume II of the Public Accounts 1982-83 in accordance with section 30(4) of the Auditor General Act.

## 5.0 TABULATION OF RECOMMENDATIONS

5.1 Recommendations appearing throughout this report are reproduced in this section. Each recommendation is serially numbered and cross referenced to the sub-section in which it appears, so that the reader may readily determine the context in which the recommendation is made. Where a recommendation was contained in a previous year's report, the fiscal year covered by the report and the previous recommendation number is shown above and to the right of each recommendation.

*1. (Section 2.2.2)*

*It is recommended that the Department of Consumer and Corporate Affairs either:*

- *comply with the Orderly Payment of Debts Provisions of the federal Bankruptcy Act when paying monies from the Orderly Payment of Debts Trust, and*
- *comply with the Debtors' Assistance Act when paying monies from the Debtors' Assistance Trust,*

*or seek legislative amendments to identify the circumstances in which such monies may be transferred from the trusts to the General Revenue Fund. Furthermore, action should be taken to resolve the legal uncertainties relating to the administration of funds held by the Orderly Payment of Debts trust.*

*2. (Section 2.2.6)*

*It is recommended that the Department of Social Services and Community Health adhere to the provisions of section 17 the Health ~~Care~~ Unit Act in its administration of operating grants to local health units. Furthermore, for accounting purposes, the Department should treat repayments of grant monies by health units as expenditure refunds for the fiscal years to which the original grant related.*

*3. (Section 2.2.8)* *(1980-81: No. 12)*

*It is recommended that the Department of Social Services and Community Health continue to strengthen its procedures to minimize the incidence of overpayments to social allowance recipients. Areas requiring particular attention are:*

- *procedures to ensure that information contained in social allowance recipients' files is complete and up-to-date, and*
- *procedures to ensure prompt preparation and processing of data decision sheets.*

*4. (Section 2.2.9)*

*It is recommended that the Department of Transportation obtain assurance that grants disbursed under the Urban Transportation Financial Assistance Program are used for the purposes for which they were given. This could be achieved by obtaining opinions from the recipients' auditors that the financial information is presented fairly in accordance with the basis of accounting described in the agreement and whether the grants were expended in compliance with the grant agreements and the Department's administrative procedures manual.*

*5. (Section 2.2.9)*

*It is recommended that when recipients of conditional grants are required to provide assurance to the Province in the form of an audited report that the grants they have received were spent in compliance with the conditions of the grant agreement, the auditors examination and report should be in accordance with section 5815 and, where necessary, section 5805 of the Canadian Institute of Chartered Accountants Handbook.*

*6. (Section 2.2.10)* *(1981-82: No. 9)*

*It is recommended that if compliance with existing provisions of the Pension Plan Acts and Regulations as they relate to employers' contributions is not considered desirable, Treasury Department seek immediate amendments to those Acts or Regulations to provide for the cessation of employer contributions when employee contributions cease.*

*7. (Section 2.2.12)*

*It is recommended that an arrangement be finalized between The Workers' Compensation Board and the Minister of Hospitals and Medical Care, as provided by section 82.1 of the Workers' Compensation Act, relating to the payment by and subsequent reimbursement to the Health Care Insurance Fund of claims for medical aid provided to workers coming under the Workers' Compensation Act.*

*8. (Section 2.2.13)*

*It is recommended that the Treasury Board issue guidelines covering the circumstances in which conditional grants may be paid to recipients before the recipients need to spend the money, together with the disposition of any interest earned on such monies.*

*9. (Section 2.2.13)*

*It is recommended that departments and Provincial agencies that disburse conditional grants ensure that the grant agreements specify if and in what circumstances grants may be paid to recipients before the recipients need to spend the money. Where prior payment is permitted, the grant agreement should stipulate how the money should be held and the disposition of any interest earned thereon. Chapter 6 of the Treasury Department's Manual of Financial Administration should be amended to reflect these requirements.*

*10. (Section 2.2.14)*

*It is recommended that, where appropriate, Provincial agencies be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs.*

*11. (Section 2.2.15)* *(1981-82: No. 16)*

*It is recommended that the Treasury Department seek amendments to the Government Land Purchases Act that will remove any doubt as to whether the Land Purchase Fund has legislative authority to borrow other than by advances from the General Revenue Fund and to mortgage land held by the Fund.*

*12. (Section 2.2.16)*

*It is recommended that the Minister of Municipal Affairs take action to resolve the long-standing problems relating to non-compliance with the provisions of The Metis Betterment Act (and regulations issued pursuant thereto) governing the appointment of members to local boards of settlement associations and payment of honoraria to board members.*

*13. (Section 2.2.17)*

*It is recommended that the Departments of the Environment and Transportation take steps to ensure that, in future, they comply with section 12(1) of the Public Works Act when administering public works contracts.*

*14. (Section 2.2.19)* *(1979-80: No. 23)*

*It is recommended that the Public Colleges ensure that adequate time and resources are directed to the establishment and maintenance of accounting records and a comprehensive system of internal control and that management continue to monitor areas where incompatible duties are not properly segregated.*

*15. (Section 2.2.19)*

*It is recommended that management of all departments, funds and Provincial agencies exercise care when reducing the resources allocated to financial administration, to ensure that adequate financial control is maintained in order that the vulnerability of public funds to theft and misuse* *is not increased, and that the accuracy of financial information for both management and the Legislative Assembly is not jeopardized.*

*16. (Section 2.3.1) (1981-82: No. 22)*

*It is recommended that the Department of Hospitals and Medical Care strengthen its procedures to avoid irregularities when processing grants to hospitals.*

*17. (Section 2.3.3)*

*It is recommended that senior management increase its involvement in the preparation and implementation of EDP development plans to determine whether:*

- *the plans describe in appropriate detail the proposed development and implementation activities,*
- *evidence is available to support the rationale behind the plans, and*
- *intended benefits are achieved.*

*18. (Section 2.3.7) (1981-82: No. 32)*

*It is recommended that departments and Provincial agencies that use the central salary payroll system intensify their efforts to improve the accuracy and completeness of the records they maintain to support the information processed by the system. This should include ensuring that the requisite approvals are obtained for all payments, and deductions therefrom, and that records and procedures comply with Chapter 7 of the Treasury Department's Manual of Financial Administration.*

*19. (Section 2.3.9)*

*It is recommended that The Workers' Compensation Board establish a formal policy governing the period over which deficits are to be recovered and the way in which class deficits should be recovered during that period.*

*20. (Section 2.4.1) (1978-79: No. 33)*

*It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies that derive the benefit from their use. It is suggested that achieving this objective could be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover, consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.*

*21. (Section 2.4.1) (1980-81: No. 34)*

*It is recommended that in order to achieve more comprehensive and meaningful reporting of program delivery costs, consideration be given, in the longer term, to including maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.*

*22. (Section 2.4.3)*

*It is recommended that the Alberta Housing Corporation:*

- *discontinue its accounting policy of capitalizing interest on land inventory.*
- *establish procedures to prevent the recorded cost of land inventory exceeding the market value.*
- *review regularly the status of its development projects to ensure that the projects' capitalized costs do not exceed the anticipated sale value.*

- *consider disclosing separately in its financial statements, land inventory designated short term development land and land inventory designated long term development land.*
- *consider using the Province's Land Purchase Fund for acquiring and holding long term development land.*

*23. (Section 2.4.4)*

*It is recommended that financial control and reporting systems used by departments, funds and Provincial agencies to administer major capital construction projects be designed to provide, as a minimum, the following information to senior management on a prompt and frequent basis for each project and its components:*

- *Comparisons of the originally approved project budget to the most recently approved project budget, with details of increases and decreases resulting from inaccurate estimating, project scope revisions, price escalation or other relevant factors.*
- *Comparisons of total contract amounts to the corresponding portion of the most recently approved project budget;*
- *Comparisons of the latest cost estimates for project components, that have not yet been committed to contract, to the corresponding portion of the most recently approved budget;*
- *Analyses and comparisons of the following ratios and an explanation of their effect on the approved project budget:*
  - *(a) costs incurred to date as a percentage of the total contract amounts;*
  - *(b) work performed as a percentage of the latest revised quantity estimates for the total work required;*
- *Analyses of the impact of any significant event, such as a change in the scope of the project or a delay in the completion of a component of the project, on the estimated cost to completion for both committed and uncommitted project components.*

*24. (Section 2.4.4)*

*It is recommended that, in order to reduce the risk of decisions being made on the basis of inadequate or misleading information, financial information flowing from each major capital construction project as well as the methods and assumptions used in preparing cost and quantity estimates, upon which senior management relies when making policy decisions and when evaluating project progress, be regularly reviewed by persons with financial and technical expertise who are independent of the project manager.*

*25. (Section 2.4.4)* *(1979-80: No. 34)*

*It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills be supported by more extensive financial information on major capital construction projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future costs in relation to the original cost forecast, and the total estimated cost for each project. (This recommendation should not be interpreted as suggesting that the Legislative Assembly approve other than the next fiscal year's expenditures on these projects).*

*26. (Section 2.4.5)* *(1978-79: No. 34)*

*It is recommended that:*

- *the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund agree upon common economic assumptions and methods that can be used when valuing* *the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund.*

- *in the light of the recent proposals issued by the FASB and general accounting trends on pension accounting, consideration again be given to reflecting the unrecorded liability arising from the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province.*
- *consideration be given to all available ways and means of restricting the growth in the net pension liability.*

*27. (Section 2.4.6)* *(1979-80: No. 35)*

*It is recommended that, in the interest of improved financial reporting and accountability to the Legislative Assembly, all costs of the Exploratory Drilling Incentive and Geophysical Incentive programs be budgeted as expenditures in the annual Estimates and disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs. It may also involve an amendment to Legislation.*

*28. (Section 2.4.6)* *(1979-80: No. 36)*

*It is also recommended that consideration be given to applying similar budgeting and financial statement disclosure requirements in other instances where significant program costs have been netted against revenue. For example, provincial income tax revenue from both corporations and or individuals is presented net of royalty credits, royalty rebates, small business deductions, renter assistance credits, political contribution deductions or credits allowed to taxpayers and administration fees paid to the Government of Canada.*

*29. (Section 2.4.7)* *(1981-82: No. 47)*

*It is recommended that the Treasury Department initiate action involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting to the Legislative Assembly. Such action should include seeking and addressing the requirements and preferences of the Select Standing Committee on Public Accounts for more timely reports on the Province's financial affairs.*

*30. (Section 2.5.1)* *(1979-80: No. 45)*

*It is recommended that the Alberta Research Council continue with the action necessary to eliminate the remaining financial control problems in its fixed assets, research projects, project contracts, accounts receivable, expenditures and inventories, and payroll accounting systems.*

*31. (Section 2.5.2)* *(1981-82: No. 20)*

*It is recommended that the Department of Energy and Natural Resources continue to develop a new system to record, monitor and control royalty revenues from natural gas and natural gas by-products. The Department should also continue to bring up to date the verification of its existing data.*

*32. (Section 2.5.2)* *(1981-82: No. 21)*

*It is recommended that before the Department of Energy and Natural Resources develop a new system to monitor and control royalty revenues from natural gas and natural gas by-products, consideration be given by the Government to seeking a more efficient and less complex way of calculating, verifying and collecting gas royalties. In this regard, input should continue to be obtained from the gas industry and all Government entities involved in monitoring the production, processing and selling of natural gas and natural gas by-products.*

*33. (Section 2.5.3)* *(1981-82: No. 40)*

*It is recommended that the Department of Transportation continue with its efforts to eliminate the deficiencies in its financial controls and accounting systems.*

*34. (Section 2.5.5)* *(1979-80: No. 44)*

***It is recommended that the Treasury Department continue with efforts to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.***

C.A.
Auditor General

Edmonton, Alberta
February 14, 1984

# AUDITOR GENERAL ACT

## CHAPTER A-40

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of other words

**2** Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

**3**(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

**4** The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

**5** On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

**6**(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so

appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

**10** The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

**11**(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

**12** The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

**13**(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

**14** The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

**15**(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency, for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explan-

ations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

1977 c56 s15

Right to information

**16**(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

1977 c56 s16

Special duties of Auditor General

**17**(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

**18**(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

**19**(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports **20**(1) The Auditor General may prepare a special report to the

Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

**21**(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

**22**(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

**23** The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

**24** An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

**25** In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

**26** The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

**27** Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

**28** The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

**29** The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

**30**(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

APPENDIX II

# REPORT TO THE PUBLIC ACCOUNTS COMMITTEE OF THE LEGISLATURE OF ALBERTA REGARDING THE RECOMMENDATIONS OF THE REPORT OF THE AUDITOR GENERAL OF MARCH 31, 1982

Submitted by the
Provincial Treasurer
on behalf of the
Executive Council
October 1983

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*Recommendation*

1. *ALBERTA HERITAGE SAVINGS TRUST FUND (Section 2.2.4) (1980-81: No. 4)*

   *It is recommended that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparisons of the performance of the Heritage Fund with the performance of similar investment entities. Furthermore, consideration could be given to making the performance comparison information obtained from the independent investment analyst available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act.*

*Comments*

In view of:

- the reduction of the non-renewable resource revenue transfer to the Alberta Heritage Savings Trust Fund to 15% of such revenues received by the Province,
- the transfer of the Alberta Heritage Savings Trust Fund's net investment income to the General Revenue fund, and
- the smaller proportion of the Alberta Heritage Savings Trust Fund invested under the provisions of section 10

the investment management of section 10 must recognize the priority need for liquidity to meet the investment obligations of the other investment divisions and therefore cannot focus solely on rate of return considerations. Under these circumstances, comparative measurement of the rate of return would not be meaningful. The yield to maturity and rate of return information contained in the last three Alberta Heritage Savings Trust Fund annual reports provides useful information on the investment results of funds invested under the provisions of section 10.

*Recommendation*

2. *ALBERTA HERITAGE SAVINGS TRUST FUND (Section 2.2.5) (1980-81: No. 5c)*

   *It is recommended that the annual financial statements of the Alberta Heritage Savings Trust Fund and the Provincial Treasurer's representation relating to the adequacy of the Trust Fund's internal control system, together with the reports of the Auditor General on both of these, be subject to review each year by the Audit Committee established pursuant to section 21 of the Auditor General Act before the Trust Fund's annual report is published.*

*Comments*

The Government has complied with this recommendation in that the Alberta Heritage Savings Trust Fund financial statements for the years ended March 31, 1982 and 1983 were reviewed by the Audit Committee prior to publication of the Trust Fund's annual report. The Government agrees that the Audit Committee, with the Auditor General attending, should review the Trust Fund's financial statements each year before the annual report is published.

*Recommendation*

3. *ALBERTA CORPORATE INCOME TAX ACT – REFUNDS (Section 2.3.1)*

   *It is recommended that consideration be given to amending the Alberta Corporate Income Tax Act to allow the Provincial Treasurer discretion, in special circumstances, to refund income tax instalments received.*

*Comments*

The Government agrees with the recommendation. Bill 40, Alberta Corporate Income Tax Amendment Act 1983, section 11 provides for the amendment recommended.

*Recommendation*

4. *ENERGY AND NATURAL RESOURCES – AUDITOR GENERAL'S ACCESS RIGHTS (Section 2.3.2) (1980-81: No. 8)*

*It is recommended that provision be made in legislation giving the Auditor General access rights, similar to those of the Department of Energy and Natural Resources, to the appropriate records of organizations liable to pay royalties, subject to the limitation that such access is for the sole purpose of joining, at his discretion, any Departmental audit in progress. This will enable him to evaluate the auditing performed by the Mineral Revenues Division Audit Section.*

*Comments*

The Auditor General Act establishes an auditor and auditee relationship between the Auditor General and the Department. It is inappropriate to have the same relationship established between the Auditor General and the royalty payor. Under the present arrangements, the Auditor General has access to all of the departmental information bearing on the auditing methods used by the Department. All audit working papers of the Department are available to the Auditor General and the current legislation also enables him to be an observer during the Department's audit of royalty payors. Therefore, it is not necessary to provide the Auditor General with additional access rights.

*Recommendation*

5. *SOCIAL SERVICES AND COMMUNITY HEALTH – PAYMENT FOR GOODS AND SERVICES (Section 2.3.3)*

*It is recommended that the Associate Deputy Minister of Social Services and Community Health direct the Department's expenditure and accounting officers to exercise more care in adhering to legislative requirements respecting the receipt of goods and services and payment therefor.*

*Comments*

The Associate Deputy Minister has reminded the Department's expenditure and accounting officers of the importance of adhering to Government policy regulating the receipt of goods and services and payment therefor.

*Recommendation*

6. *SOCIAL SERVICES AND COMMUNITY HEALTH – OVERPAYMENTS OF SOCIAL ALLOWANCES (Section 2.3.4) (1980-81: No. 12)*

*It is recommended that the Department of Social Services and Community Health strengthen its procedures to minimize the incidence of overpayments to social allowance recipients. Areas requiring particular attention are:*

- *procedures to ensure that information contained in social allowance recipients' files is complete and up-to-date.*
- *procedures to ensure prompt preparation and processing of data decision sheets.*
- *procedures to follow-up and recover social allowance overpayments.*

*Contents*

The Department is implementing a computer terminal system which will considerably reduce the time taken to process data decision sheets and update the recipients' financial information. This system should be fully operational by June 1984. In the interim, social workers have been advised to maintain complete and current client information on the recipients' files.

The Department is currently finalizing an overpayment collection policy. Crown Debt Collections has located a collection unit with 6 staff, in Social Services and Community Health. This unit will assist in collecting overdue accounts receivable originating within the Department. It is expected that the amounts recovered will exceed the cost of operation of the collection unit.

*Recommendation*

*7. ENVIRONMENT – ACQUISITION AND ADMINISTRATION OF REAL PROPERTY (Section 2.3.5) (1980-81: No. 9)*

*It is recommended that the Department of the Environment continue with efforts to eliminate the deficiencies in its land acquisition and administration procedures and documentation.*

*Comments*

Continuing efforts are being made to improve the financial and administrative procedures with respect to land acquisition. Several organizational changes are being implemented as a result of an organizational review. A number of the Department's land acquisition responsibilities have been transferred to the Department of Public Works, Supply and Services effective August 1, 1983.

*Recommendation*

*8. ENVIRONMENT – AVAILABILITY OF LEGAL ADVICE (Section 2.3.5) (1980-81: No. 10)*

*It is recommended that in view of the nature of transactions effected by the Land Assembly Division of the Department of the Environment, arrangements be made to ensure that appropriate legal advice is available when needed.*

*Comments*

Every effort will be made to ensure that appropriate legal counsel is available, through the Department of the Attorney General, when needed.

*Recommendation*

*9. TREASURY – EMPLOYER PENSION CONTRIBUTIONS (Section 2.3.6)*

*It is recommended that the Treasury Department consider seeking amendments to the various Acts or regulations, where appropriate, to provide for the cessation of employers' contributions when employees' contributions cease or comply with existing provisions of the Acts and regulations as they relate to employers' contributions.*

*Comments*

The Department acknowledges that the legislation requires clarification and will address this matter in considering amendments to pension legislation.

*Recommendation*

*10. FIXED ASSETS – IMPROVED SYSTEMS (Section 2.3.7) (1978-79: No. 13)*

*It is recommended that, in view of the large and increasing volume (and value) of fixed assets administered by the Provincial Government, improvements be made to many of the systems currently in place to ensure adequate control and safeguards. These systems should incorporate the requirements of section 9.5 of the Treasury Department's Manual of Financial Administration, the most important of which are:*

- *An accurate and timely record of assets under the entity's custodianship containing a description of each asset showing its location, original cost or assigned value, acquisition date and disposal date.*
- *A program of physical verifications to be taken periodically and reconciled to the records. The reconciliations and physical counts should be performed by persons not involved in maintaining the fixed asset records or the custody of assets.*
- *Proper physical safeguards to prevent damage or misappropriations of fixed assets.*

*Comments*

The Government concurs with this recommendation and the Controller has advised Senior Financial Officers that departments should ensure systems are in place to control and safeguard fixed assets. Most departments are taking positive steps to improve their systems for controlling fixed assets. Effective April 1, 1983 the minimum unit cost of items to be classified as fixed assets was increased to $500 from $100 as a result of a review of the definition of fixed assets initiated in response to a recommendation in the 1980 Auditor General's Report. This change was made to reflect the cost increases which have occurred since the fixed asset definition was originally developed. Although not the intent of the change, it has substantially reduced the number of items classified as fixed assets with only a minor reduction in the total dollar amount of fixed assets; consequently departments should be better able to administer their fixed assets.

*Recommendation*

*11. FIXED ASSETS – PROVINCIAL AGENCIES AND REGULATED FUNDS (Section 2.3.7) (1978-79: No. 15)*

*It is recommended that all Provincial agencies and regulated funds which are not currently subject to the Treasury Department's Manual of Financial Administration, excepting those which have already done so, design, implement and document procedures to adequately record, account for and safeguard fixed assets under their custodianship. The principles contained in section 9.5 of the Treasury Department's Manual could be used as a guide in designing such procedures.*

*Comments*

As stated in the response to 1980 recommendation number 5, Provincial agencies and regulated funds are encouraged to model their procedures on those included in the Accounting and Financial Control Manual.

*Recommendation*

*12. THE GOVERNMENT HOUSE FOUNDATION – CONTROL OF ART WORKS (Section 2.3.8)*

*It is recommended that The Government House Foundation establish procedures requiring the ownership of art works to be checked before they are sold or otherwise disposed of. In addition, year-end and periodic inventory verifications should include timely reconciliations of art works with the record of art works owned.*

*Comments*

The Foundation does not normally engage in the sale or disposal of artwork. In an individual case, a painting financed from the General Revenue Fund through the Department of Government Services was erroneously assumed to be part of the Foundation's assets and traded as part payment for a valuable acquisition.

The Chairman has initiated interim and year-end inventory verifications in co-operation with Public Works, Supply and Services personnel to verify ownership of artwork in the Government House Collection.

*Recommendation*

*13. ALBERTA HEALTH CARE INSURANCE ACT – AMENDMENT (Section 2.3.9)*

*It is recommended that consideration be given to amending the Alberta Health Care Insurance Act to authorize the Health Care Insurance Fund to make recoverable payments to Alberta hospitals pursuant to reciprocal agreements with other Canadian provinces and territories.*

*Comments*

Specific amendments were included in Bill 38 – Health Care Statutes Amendment Act, 1983, to authorize these payments. Necessary changes to the regulations are being formulated.

*Recommendation*

*14. ALBERTA HEALTH CARE INSURANCE ACT – AMENDMENT (Section 2.3.9)*

***It is recommended that consideration be given to amending the Alberta Health Care Insurance Act to authorize the Health Care Insurance Fund to make recoverable payments to physicians providing services to the Department of Social Services and Community Health.***

*Comments*

Bill 38, Health Care Statutes Amendment Act, 1983, addresses the recommendation.

*Recommendation*

*15. ALBERTA HEALTH CARE INSURANCE ACT – AMENDMENT (Section 2.3.9)*

*It is recommended that the policy be clarified regarding funding sources for payments for basic health services and hospital charges on behalf of injured workers coming under the Workers' Compensation Act. Legislation should then be amended to provide appropriate authority.*

*Comments*

Bill 38, Health Care Statutes Amendment Act, 1983, includes clarification and proper authority for the payment and reimbursement of "Medical Aid" on behalf of injured workers. The necessary agreement and regulation changes are being prepared.

*Recommendation*

*16. LAND PURCHASE FUND (Section 2.3.10)*

*It is recommended that the transactions entered into by the Land Purchase Fund during the 1981-82 fiscal year which were ultra vires the Government Land Purchases Act, namely:*

- *borrowing other than by way of advances from the General Revenue Fund, and*
- *pledging land held by the Fund as security therefor,*

be regularized as follows:

*(a) the loan be repaid in full, or,*

*(b) if the mortgagee is unwilling to retire the loan:*

  *(i) a Special Warrant be obtained to provide funds from which the Land Purchase Fund may be reimbursed for costs pertaining to the mortgaged land;*

  *(ii) the Land Purchase Fund be reimbursed for the costs pertaining to the mortgaged land, thereby transferring the land and mortgage to the General Revenue Fund pursuant to section 7(1) of the Government Land Purchases Act;*

  *(iii) if it is necessary, an Order in Council be obtained under section 7(3) of the Government Land Purchases Act;*

  *(iv) an Order in Council be obtained pursuant to section 61(1) of the Financial Administration Act authorizing the borrowing under the mortgage.*

*If it is likely that in future, the Provincial Treasurer will wish the Land Purchase Fund to acquire land with mortgages attached, consideration should be given to amending the Government Land Purchases Act.*

*Comments*

It is the opinion of the Alberta Attorney General that the transactions referred to in the recommendation are intra vires the Government Land Purchases Act. Accordingly, as the land was intended to be purchased and held by the Land Purchase Fund, the Government does not propose to transfer the land to the General Revenue Fund.

*Recommendation*

17. *M.L.A.'S – EXPENSES (Section 2.3.11)*

***It is recommended that consideration be given to amending the Legislative Assembly Act to provide specific authority for the payment of Members' expenses incurred in travelling between their constituencies and the Legislature, approved for the payment of communications allowances and any other similar approved expenditures which may be of benefit to individual Members.***

*Comments*

The Public Accounts Committee may wish to confer with the Speaker of the Legislative Assembly and/or the Members' Services Committee regarding this recommendation.

*Recommendation*

18. *SAFEGUARDING PUBLIC MONIES (Section 2.3.12)*

*It is recommended that management of all departments and Provincial agencies regularly review and, where necessary, strengthen their security arrangements for safeguarding public monies against theft, particularly during normal working hours and when such monies are in transit.*

*Comments*

Armoured car service between departments and banking institutions has been greatly extended during 1982-83. The number of locations receiving service in Edmonton and Calgary has risen by 12 and service was extended into Red Deer at 4 locations. Under the Risk Management programme, areas with the potential for the loss of public funds are identified and analyzed. Loss control measures are implemented to reduce or eliminate potentially severe losses. Departments have been encouraged to make twice daily deposits during peak periods and to use bank facilities that allow for deposit during non-banking hours where required. Efforts to safeguard public monies will continue and changes in existing procedures will be made as required to meet changing circumstances. Treasury also has insurance coverage and fidelity bonds to indemnify the Government for losses.

*Recommendation*

19. *ALBERTA INCOME TAX ACT – TAX GAP (Section 2.3.13)*

*It is recommended that the Provincial Treasurer:*

- *estimate annually, either independently or in conjunction with the Department of National Revenue – Taxation, the income taxes assessable under the Alberta Income Tax Act.*
- *estimate annually how much income tax it is reasonable to expect will not be assessed assuming that the Department of National Revenue Taxation employs adequate compliance and enforcement procedures.*
- *require each year, prompt remittances to the Province of the difference between these two estimates, or explanations for any significant variances.*

*Comments*

One of the fundamental principles underlying Canada's income tax system is self-assessment – each individual is responsible to accurately report his taxable income. To encourage compliance with the provisions of the Income Tax Act, Revenue Canada each year audits a relatively small number of tax returns. This practice strikes a reasonable balance between unquestioning acceptance of returns filed by taxpayers and a detailed audit of each return which would be prohibitively costly and an undue burden on individual Canadians.

The Auditor General of Canada reviews the sampling selection system used by Revenue Canada. As long as the federal Auditor General is satisfied that the procedures being used are adequate, we see no basis for questioning Revenue Canada's administrative practices.

Although there are no doubt cases where individuals are not paying tax on all or part of their incomes, the Alberta government believes that the administrative procedures used by Revenue Canada are, on balance, fair and appropriate. Under the terms of the Alberta-Canada Tax Collection Agreement, Alberta is entitled to receive only the tax that is actually assessed. The Government, therefore, does not intend to ask for payment from the federal government of taxes which Revenue Canada does not assess.

*Recommendation*

*20. ENERGY AND NATURAL RESOURCES – ROYALTY REVENUE SYSTEM (Section 2.4.1)*

*It is recommended that the Department of Energy and Natural Resources develop a new system to record, monitor and control royalty revenues from natural gas and natural gas by-products. Meanwhile, the Department should continue to bring up to date the verification of its existing data.*

*Comments*

The development of a new system to record, monitor and control gas royalty revenues was incorporated in the Department's five year electronic data processing (E.D.P.) plan in 1982. Approved development work commenced on April 1, 1983 for completion and implementation on January 1, 1985.

The verification of existing data is being continually updated through enhancements to the existing computerized Gas Royalty Audit System as well as revising manual verification procedures.

*Recommendation*

*21. ENERGY AND NATURAL RESOURCES – SIMPLIFICATION OF ROYALTY REVENUE SYSTEM (Section 2.4.1)*

*It is recommended that before the Department of Energy and Natural Resources develop a new system to monitor and control royalty revenues from natural gas and natural gas by-products, consideration be given by the Government to seeking a more efficient and less complex way of calculating, verifying and collecting gas royalties. In this regard, input should continue to be obtained from the gas industry and all Government entities involved in monitoring the production, processing and selling of natural gas and natural gas by-products.*

*Comments*

The Department has completed an in-depth analysis of the natural gas royalty system to identify the major areas of complexity. These elements will be examined jointly with the industry associations to eliminate redundant calculations and to streamline the new system.

The underlying policy of the existing system as it relates to Crown royalty is that the Crown must have the ability to take its share of minerals in kind. In certain instances, such as natural gas products, the Crown desires to be in a position to allocate its share of production. Because of this requirement, the flexibility to allow a major streamlining of the natural gas royalty system is not available.

In developing the new system, more emphasis will be placed on the development of a system which will enable the Department to meet its legislated responsibilities in the collection of Crown royalty.

*Recommendation*

*22. HOSPITALS AND MEDICAL CARE – OPERATING GRANTS (Section 2.4.2)*

*It is recommended that the Department of Hospitals and Medical Care strengthen its procedures to avoid duplicating operating grants to hospitals.*

*Comments*

Steps are being taken to prevent duplicate operating grants. Further review of the procedures will be carried out in 1983 and a decision taken as to recovery of the "windfall" revenue from the hospital.

*Recommendation*

### *23. SOLICITOR GENERAL – ACCOUNTING RECORDS AND FINANCIAL CONTROL SYSTEMS (Section 2.4.3)*

*It is recommended that the Department of the Solicitor General ensure that adequate accounting records and financial control systems are established when new correctional or other institutions are opened. This should include:*

- *developing administrative manuals and training staff in their use, and*
- *providing assistance and supervision during the early months of operation.*

*Comments*

The Department of the Solicitor General has taken several steps to ensure adequate accounting records and financial control systems are in place:

- Finance Division of the Department of the Solicitor General is fully involved in the planning and implementation of Accounting and Financial Control Systems in all new Correctional Centres.
- In order to ensure strong financial controls, the Department has strengthened its Financial Advisory Services. Also, each institution's records and controls are reviewed regularly. Within six months of the date of opening a new institution, financial systems are fully reviewed by Financial Advisory Services and system weaknesses are corrected promptly.
- Administrative and accounting manuals have been developed and are being updated regularly. Staff training is being co-ordinated by the Head office on a continuing basis.
- Staffing levels both at the Head office and institutions have been strengthened in order to properly support, assist and supervise the operation both during the initial stages and on an ongoing basis.

*Recommendation*

### *24. ELECTRONIC DATA PROCESSING (E.D.P.) (Section 2.4.4)*

*It is recommended that the Office of the Controller, as part of its ongoing review of compliance with Treasury Board Directive 07/81 procedures, review the EDP development plans of departments and Provincial agencies to determine whether:*

- *the plans describe in appropriate detail the proposed development and implementation activities;*
- *evidence is available to support the rationale behind the plans;*
- *senior managers in departments and Provincial agencies recognize their responsibilities respecting the plans, and are appropriately involved in both their preparation and execution.*

*Comments*

A review of operational and strategic E.D.P. plans by the Budget Bureau is an integral component of the annual expenditure budget review and decision-making process. The Bureau's programme analysis includes a review of E.D.P. plans and requested E.D.P. expenditure authority, along with all the other resource requirements for programme service delivery.

The Office of the Controller, as part of its control evaluations activities, will review the involvement of senior managers in the development process.

*Recommendation*

25. *EXPENDITURE CONTROLS (Section 2.4.5) (1980-81: No. 14)*

*It is recommended that, where necessary and appropriate, Government departments establish procedures to ensure that annual expenditures do not exceed authorized limits. Furthermore, the Office of the Controller and the Budget Bureau should institute procedures to ensure that Government departments comply with Treasury Board Directives relating to expenditure controls.*

*Comments*

The Government agrees that departments should establish procedures to ensure annual expenditures do not exceed authorized limits. As part of its control evaluations activities, the Office of the Controller reviews the procedures that departments have in place to ensure that annual expenditures do not exceed authorized limits. Where necessary, departments are requested to improve or establish such procedures.

Procedures are in place in Treasury which ensure that cash payments to the end of the fiscal year do not exceed authorized expenditure limits. However, these procedures cannot prevent liabilities being incurred which must be reported in the Public Accounts and may cause authorized expenditure limits to be exceeded. Therefore, it is essential that departments monitor their expenditures against authorized limits.

*Recommendation*

26. *REVOLVING FUNDS – CONTROLS (Section 2.4.5)*

*It is recommended that the Treasury Department and departments responsible for administering revolving funds establish procedures to prevent advances from the Provincial Treasurer to the revolving funds from exceeding statutory limits.*

*Comments*

A reporting procedure was implemented in October 1981 to provide early warning of potential payment from revolving fund advances which would be in excess of statutory limits. This procedure enables the Office of the Controller to ensure that limits are not exceeded.

*Recommendation*

27. *HOSPITALS AND MEDICAL CARE – GRANTS TO NURSING HOMES (Section 2.4.6) (1979-80: No. 17)*

*It is recommended that the Department of Hospitals and Medical Care strengthen its control over the payment of per diem grants to nursing homes under the Financial Assistance for Supervised Personal Care program by ensuring that:*

- *Provincial contributions and patient days data on monthly returns are reconciled with the data contained in monthly unaudited financial and statistical reports from nursing homes.*
- *Monthly data are reconciled with annually audited data, and that annually audited data are provided in a format which facilitates such reconciliations.*

*Comments*

Computer programs have been developed to provide information for manual reconciliation, which can now be performed monthly. Additional systems development will be undertaken to allow automatic reconciliation and comparison. The monthly reconciliations will also be reconciled with the annually audited data, which has to be revised to facilitate such reconciliations. A Director of Internal Audit has been engaged and he will follow up on exceptions in the reconciliations.

*Recommendation*

### *28. HOSPITALS AND MEDICAL CARE – COMPLIANCE WITH NURSING HOME ACT REGULATIONS (Section 2.4.6) (1978-79: No. 19)*

*It is recommended that the Department of Hospitals and Medical Care improve procedures to monitor and ensure compliance, by the nursing homes to which it contributes funding, with the regulations issued pursuant to the Nursing Homes Act.*

*Comments*

The Nursing Homes Act and Regulations are slated for review and revision. Work is being held in abeyance until a careful review of the report of the Nursing Homes Review Panel allows incorporation of appropriate recommendations. Procedures to monitor and ensure compliance will then be improved.

*Recommendation*

### *29. SALARY ADJUSTMENTS (Section 2.4.7) (1978-79: No. 20)*

*It is recommended that when employees receive salary increases, the departments in which they are employed must ensure that overtime paid subsequently, for hours worked before the salary increase, is based on pre-increase salary rates.*

*Comments*

The payroll system has been enhanced to improve controls in this area. The Controller has advised Senior Financial Officers that departments should review any overtime paid under such circumstances to ensure correct pay rates are used.

*Recommendation*

### *30. PUBLIC COLLEGES – FIXED ASSETS (Section 2.4.8) (1979-80: No. 22)*

*It is recommended that management of the Public Colleges, excepting those that have already done so, document and implement procedures to account for and safeguard all fixed assets under their custodianship.*

*Comments*

Advanced Education agrees that the Public Colleges must establish and maintain adequate systems and procedures to safeguard their assets. The Department is working closely with the institutions to ensure that proper procedures are established and is endeavoring to make the control procedures common to all the colleges.

*Recommendation*

### *31. GOVERNMENT SERVICES REVOLVING FUND – SPECIAL PURPOSE CONTRACTS (Section 2.4.9)*

*It is recommended that the Government Services Revolving Fund ensure that written authorization is obtained from the ultimate payor before special purpose contracts for goods or services are issued.*

*Comments*

Standard practice in the Revolving Fund has been to obtain written authorization from the payor in the requisitioning departments. The circumstances surrounding the Revised Statutes of Alberta 1980 were unique, in that demarcations of responsibility were unclear and the requisitioning department was not ultimately the paying department.

Current procedures ensure that the paying department provides authorization on special purpose contracts.

*Recommendation*

### *32. SALARY PAYROLL SYSTEM – ACCURACY OF INFORMATION (Section 2.4.10)*

*It is recommended that all departments and Provincial agencies which use the central salary payroll system review their payroll files to ensure that the information they contain is accurate and up to date. Supervision of clerical staff should also be increased to comply with Chapter 7 of the Treasury Department's Manual of Financial Administration and related employment terms and agreements.*

*Comments*

The Government agrees with the recommendation. The Controller has requested all Senior Financial Officers to review the adequacy of records maintained to support salary payments and the deductions and withholdings therefrom.

*Recommendation*

### *33. ELECTRONIC DATA PROCESSING – SECURITY (Section 2.4.11) (1979-80: No. 31)*

*It is recommended that management of departments and agencies, which use the Government's central data processing and storage facility, review the adequacy of their data and program security arrangements. In this regard, user departments and agencies must accept responsibility for assessing the sensitivity and confidentiality of their data and programs, and selecting the most appropriate security system options.*

*Comments*

The Government concurs with the recommendation. The management of departments and agencies are expected to accept responsibility for the adequacy of their data and program security arrangements. The Controller has requested that Senior Financial Officers review security requirements and take appropriate action.

*Recommendation*

### *34. FIXED ASSETS – CHARGING RELATED COSTS (Section 2.5.1) (1978-79: No. 33)*

*It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies which derive the benefit from their use. It is suggested that achieving this objective may be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover, consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.*

*Comments*

A task force consisting of representatives of Executive Council, Public Works, Supply and Services and Treasury studied the issue and its recommendations are now being reviewed by Heads of the departments involved.

*Recommendation*

### *35. CENTRALLY PROVIDED SERVICES (Section 2.5.1) (1980-81: No. 34)*

*It is recommended that in order to achieve more comprehensive and meaningful reporting of program delivery costs, consideration be given, in the longer term, to including maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.*

*Comments*

Any action on this recommendation would logically follow on decisions made in respect of the recommendations referred to in connection with Recommendation 34.

*Recommendation*

*36. UNFUNDED PENSION PLAN LIABILITIES (Section 2.5.2) (1978-79: No. 34)*

*It is recommended that:*

*a) The Treasury Department negotiate with the Board of Administrators of the Teachers' Retirement Fund to obtain triennial actuarial valuations based on the economic assumptions and methods used when valuing the six pension plans administered by the Province of Alberta and, at March 31 each year, prepare annual interim valuations of the Fund.*

*b) Consideration be given to reflecting the unrecorded liability arising under the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province. The consequent charge to operations could, if desired, be deferred and amortized over a number of years.*

*c) Consideration be given to the several options available, any of which if implemented could control the future growth of the pension plans liability.*

*Comments*

The Board of Administrators of the Teachers' Retirement Fund has agreed to provide a valuation at March 31, 1984 which will be an update of the August 31, 1983 quinquennial actuarial valuation. The Board has indicated that it considers it impractical to undertake a March 31 valuation on a continuing basis.

A review has been conducted of related practices of other provincial governments and the federal government and the status of recommendations on pensions accounting in both the private and public sectors. Alberta's current practices are similar to those of most of the provincial governments. In view of the prevailing uncertainties and lack of generally accepted private or public sector standards for pensions accounting, Alberta should continue to report the actuarial estimate of the accrued pensions obligations (estimated triennially) by way of notes to the financial statements of the General Revenue Fund and the consolidated financial statements.

The pension plan liabilities are a concern to the Government as evidenced by the establishment of a $1.1 billion pension fund in 1981. The Government is continuing to review its funding policies and the means whereby the future growth of the estimated liability can be controlled.

*Recommendation*

*37 PROGRAM CHARGES OFFSET AGAINST REVENUE (Section 2.5.3) (1979-80: No. 35)*

*It is recommended that, in the interest of improved financial reporting and accountability to the Legislative Assembly, all costs of the Exploratory Drilling Incentive and Geophysical Incentive programs be budgeted as expenditures in the annual Estimates and disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs. It may also involve an amendment to Legislation.*

*Comments*

While the Government agrees that consistency in financial reporting is desirable, the accounting treatment should reflect programme provisions and regulations. The accounting methods now used achieve this to the extent that they reflect the statutory provisions to offset these programme provisions against revenue.

*Recommendation*

*38. PROGRAM CHARGES OFFSET AGAINST REVENUE (Section 2.5.3) (1979-80: No. 36)*

*It is also recommended that consideration be given to applying similar budgeting and financial statement disclosure requirements in other instances where significant program costs have been netted against revenue. For example, provincial income tax revenue from both corporations and/or individuals is presented net of royalty credits, royalty rebates, small business deductions, renter assistance credits, political contribution deductions or credits allowed to taxpayers and administration fees paid to the Government of Canada.*

*Comments*

The Government agrees that tax expenditure programmes should be identified and reported upon, but there is no general agreement amongst governments that they should be provided for in budgetary appropriations and disclosed as expenditure in the financial statements. There is no clear distinction to determine which of these programmes are "tax expenditures" and which are truly "revenue abatements".

*Recommendation*

*39. ALBERTA RESEARCH COUNCIL – FINANCIAL CONTROL (Section 2.6.1) (1979-80: No. 45)*

*It is recommended that the Alberta Research Council take vigorous action to eliminate the serious financial control problems in its fixed assets, sponsors' projects, sponsors' contracts, accounts receivable, expenditure and payroll accounting systems.*

*Comments*

The Alberta Research Council continues to assign a high priority to the resolution of its financial control problems. A three year development plan was developed in November of 1981 and its implementation was initiated in April, 1982. The problems outlined by the Auditor General have been accorded a priority within the three year plan according to the work schedule and the availability of qualified employees, and already progress has been achieved.

*Recommendation*

*40. TRANSPORTATION – FINANCIAL CONTROL (Section 2.6.2)*

*It is recommended that the Department of Transportation proceed without delay to eliminate the numerous deficiencies in its financial controls and accounting systems.*

*Comments*

Alberta Transportation has, during the past year, eliminated several of the noted deficiencies. In addition, the Department has, through meetings with the Auditor General, established on a priority basis, resolution to the outstanding deficiencies as resources permit.

*Recommendation*

*41. HOSPITALS AND MEDICAL CARE – RECONCILIATION OF INSURANCE PREMIUMS (Section 2.6.3) (1978-79: No. 25)*

*It is recommended that the Department of Hospitals and Medical Care reduce to a minimum the backlog in monthly reconciliations of Health Care Insurance Fund premiums charged, with premiums received from employers, and that efforts be continued to implement revised computer systems in order to facilitate more efficient and timely reconciliation procedures.*

*Comments*

The Department has and is continuing to take corrective action, namely:

The unapplied cash received from group registrants has been reduced from $28.2 million at March 31, 1982 to $7.4 million at March 21, 1983, of which only $2.2 million is for cash received more than five weeks previous.

A new system, which utilizes the computer to match payments received from groups supplying the details on a computer magnetic tape, has already reduced the backlog of reconciliations of payments from most magnetic tape submitters to within a week or two of receipt of the payments.

A new billing/reconciling system for groups providing written lists of remittance details has been developed and is currently being implemented. Payments will be applied on receipt.

Funds are in the 1983/84 budget to commence development of an improved registration/billing system which will facilitate more efficient and timely reconciliations.

*Recommendation*

*42. HOSPITALS AND MEDICAL CARE – BANK RECONCILIATIONS (Section 2.6.3) (1980-81: No. 42)*

*It is recommended that the Department of Hospitals and Medical Care reconcile the Health Care Insurance Fund's bank accounts more promptly and ensure that these reconciliations are carefully reviewed and approved by supervisory personnel.*

*Comments*

Every effort will be made to obtain outstanding cheque lists promptly so reconciliations can be completed on a more timely basis for the disbursement and old benefit payments accounts.

*Recommendation*

*43. PENSION ADMINISTRATION – ACCOUNTING AND FINANCIAL CONTROL (Section 2.6.4)*

*It is recommended that the Treasury Department continue with efforts to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.*

*Comments*

Significant progress has been made towards improving pension accounting and financial controls, and efforts will continue in this direction.

*Recommendation*

*44. TREASURY BRANCHES – TRANSFERS TO GENERAL REVENUE FUND (Section 2.6.5)*

*It is recommended that the Treasury Branches Deposits Fund obtain formal Ministerial approvals for transfers of funds, both to date and in future, from surplus to the General Revenue Fund.*

*Comments*

Ministerial Orders have been obtained approving the transfer of funds for the fiscal years 1980-81 and 1981-82. Ministerial approvals will be obtained for any future transfers.

*Recommendation*

*45. PERFORMANCE INDICATORS (Section 2.8.1) (1978-79: No. 43)*

*It is recommended that the objectives of all programs be published in as specific a manner as possible, with quantitative data being provided wherever practicable as measures of* *the intended results to be achieved by the expenditure of the funds requested for the programs. At the end of each fiscal year, reports should be prepared on behalf of the responsible Ministers evaluating the achievements, resulting from the expenditure of funds for programs, in terms of the objectives and quantitative data given in the estimates. These reports (based on information generated by systems subject to audit by the Auditor General) should result from organized, documented and systematic evaluations of program activities. The reports would be laid before the Legislative Assembly by the appropriate Ministers as a part of their accountability reporting.*

*Comments*

There is real doubt as to whether this review process would be improved significantly by introducing rigid and arbitrary "performance indicators"; however, as stated in the response to the 1980 recommendation number 54, the Government will give careful attention to the results of the Auditor General's audit of management control systems to identify areas where this data could more accurately measure programme achievements.

*Recommendation*

*46. ESTIMATES FOR CAPITAL PROJECTS (Section 2.8.1) (1979-80: No. 34)*

*It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills should be supported by more extensive financial information on major capital expenditure projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future costs in relation to the original cost forecast, and the total estimated cost for each project. (This recommendation should not be interpreted as suggesting that the Legislative Assembly should approve other than the next fiscal year's expenditures on these projects.)*

*Comments*

As stated in the response to the 1980 recommendation number 34, it would be contrary to the traditions and customs of our parliamentary system to include all this information in the printed Estimates of Expenditure; however, during Committee of Supply review, such information can be elicited from the minister responsible by means of questions.

*Recommendation*

*47. TIMELY FINANCIAL REPORTING (Section 2.8.2)*

*It is recommended that, if the Legislative Assembly considers it worthwhile, and/or the Government determines that more timely reporting should be an objective, the Government should initiate a study involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting to the Legislative Assembly.*

*Comments*

The Government agrees that timeliness is a very important objective in our financial reporting and will be pleased to cooperate with the Auditor General in seeking improvement in accounting and auditing procedures, within existing resource constraints, which will achieve this objective.

The Auditor General's report contains a very useful discussion of the issues which must be addressed. It should be recognized that significant improvements in timeliness may require compromises with respect to the comprehensiveness of financial reporting.

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